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**QIUSHI Commentator on Emancipating Thought**

*HK2006043192 Beijing QIUSHI in Chinese No 8,  
16 Apr 92 pp 2-3*

[Commentator's article: "Further Emancipate Thought"]

[Text] At the beginning of the year, when Comrade Deng Xiaoping successively spoke with cadres and the masses in Wuchang, Shenzhen, Zhuhai and Shanghai, he put forward some very important ideas on a series of major current questions. These ideas have a very important guiding role to play in the further emancipation of thought, in upholding seeking truth from facts, in accelerating the pace of reform and opening up, in centralizing energy in economic construction, and in realizing the great goal of socialist modernization.

Thought is the precursor of action. A correct line of thought is an important precondition for formulating and implementing a correct political line. A crucial reason why we have been able to form the basic line of "one focus and two basic points"; have been under the guidance of this line since the Third Plenary Session of the 11th CPC Central Committee; and have been able to realize great achievements in reform, opening up, and economic construction is that we have practiced the principle put forward by Comrade Deng Xiaoping of "liberating thought, seeking truth from facts, and looking forward united." At present, our undertakings in reform and construction have entered a crucial stage, and the domestic and international conditions are advantageous to our development. Whether or not we can grasp this advantageous opportunity to accelerate reform, expand our opening up, and more swiftly promote economic development, and the overall progress of society will, to a very large degree, be determined by whether or not we can truly liberate our thoughts so that our ideological understanding, spiritual state, and work style are in accord with the situation and the tasks we face.

In his talk at Shenzhen, Comrade Deng Xiaoping pointed out: "The essence of socialism is to liberate the productive forces, develop the productive forces, eliminate exploitation, eliminate polarization, and finally achieve common prosperity." The reform in which we are now engaged, as self-perfection of the socialist system, does not require changing the basic system of socialism. However, it does require changing the economic structure fundamentally, which fetters the development of the productive forces, and establishing an economic structure which is full of vigor and life in order to further liberate and develop the productive forces. Such reform must have major ideological emancipation as a precursor and as an accompaniment. As reform continually deepens and increasingly approaches the deep levels of the old structure, the requirement for emancipation of thought will become more pressing. Without further emancipation of thought, it will not be

possible for reform and opening up to be further deepened. Only if we throw off the fetters of our old forces of habit and subjective prejudices on the ideological front will we be able to have a deepened understanding of the defects of the existing system, will we be able to have a positive and scientific attitude to building a new structure which accords with the demands of developing the productive forces, and will we be able to bravely stand at the front of the great tide of reform, adroitly guide action according to circumstances, eliminate the old and create the new, and forge ahead courageously.

Today, at all levels people are shouting: "There must be greater courage in reform and opening up." How is courage to be increased? There is a need to emancipate thought. If thought is not emancipated, there will be all sorts of dogmas and straitjackets restraining us and all sorts of apprehensions. It will then be impossible to increase courage and the pace of reform will not be increased. Without doubt, we must uphold a socialist orientation and avoid making major mistakes in our reform and opening up as much as possible. However, we cannot be timid and over-cautious on this basis and dare not move forward. A plenary meeting of the CPC Central Committee Political Bureau which was convened not long ago pointed out: "In judging whether something should bear the name 'socialist' or 'capitalist,' we should mainly look at whether or not it is beneficial to developing the productive forces of socialist society, whether or not it is beneficial to bolstering the comprehensive national strength of a socialist country, and whether or not it is beneficial to raising the standard of living of the people." This provides an objective standard for us in thinking about questions and handling matters. We should correctly understand and implement this standard. As long as something accords with this standard, it is socialist and is permitted by socialism at the current stage and we should bravely engage in it. If it does not accord with this standard, it is not in accord with socialism and it is not needed by socialism at the current stage and we certainly should not engage in it. In this way, we will free ourselves to engage in reform.

The emancipation of thought which we advocate is completely consistent with laying stress on upholding seeking truth from facts. Emancipation of thought, that is, ensuring that thought and reality and the subjective and the objective are in accordance, is seeking truth from facts. If thought is not emancipated, it will be subject to the fetters of those things which are divorced from reality, and it will not be possible to seek truth from facts. If one does not have the scientific attitude of proceeding from reality and seeking truth from facts, one will not be in accord with the demands of emancipating thought. In reform, in opening up, and in developing the economy, it is necessary to proceed from objective reality, to consider our country's national conditions, and to consider the actual situation of the various regions. If one does not consider the subjective and objective conditions and does things purely on the basis of subjective aspirations, or blindly implements directives from above, this can be called not seeking truth

from facts and this will, of course, not be in accord with the demands of emancipating thought. In the same way, when favorable circumstances exist and the conditions for speeding reform and opening up are available, if one continues to glance left and right, does not dare grasp work, and even misses opportunities, this can be called a failure to emancipate thought, and of course will not be in accord with the principle of seeking truth from facts. With respect to those things for which conditions exist, we should do them without losing the opportunity. When one knows what has to be done, one should courageously push ahead and do it. As Comrade Deng Xiaoping said in Shenzhen: "If one does not have any pioneering spirit, any spirit of 'risk', any energy or any zeal, one will not be able to travel a good road, will not be able to travel a new road, and will not be able to engage in a new undertaking." Great courage, firm steps, vigorous thought, and a clear mind—these are the things which accord with the demands of emancipating thought and seeking truth from facts.

Comrade Deng Xiaoping has said: "The emancipation of thought which we speak of refers to how, under the

guidance of Marxism, the fetters of force of habit and subjective prejudices are to be broken down, new situations are to be studied, and new problems are to be resolved. The liberation of thought certainly must not deviate from the track of the four cardinal principles and must not harm the political situation of stability and unity and vigor and vitality." Old forces of habit and subjective prejudices must be broken down because they do not accord with Marxism and they violate the principle of seeking truth from facts. If we do not break them down, it will not be possible to emancipate people's thought. The four cardinal principles must be upheld and the leading position of Marxism must be safeguarded. Only in this way will the emancipation of thought be able to maintain a correct orientation and achieve practical results.

Let us, under the guidance of the party's basic line, open our field of vision, develop our lines of thought, bravely explore, dare to break new paths, take new steps in reform, opening up and economic construction, and strive for new and greater victories.

## NATIONAL AFFAIRS, POLICY

### Zhou Shulian on Enlivening State Enterprises

92CE0506A Beijing ZHONGGUO SHEHUI KEXUE  
[CHINESE SOCIAL SCIENCES] in Chinese No 3,  
10 May 92 pp 15-28

[Article by Zhou Shulian (0719 0647 5571), director and research fellow of the Institute of Industrial Economics, the Chinese Academy of Social Sciences: "Some Issues in Connection With Efforts To Revitalize State Enterprises"]

[Text] The present article starts out from the basic idea that state enterprises must become commodity producers of abundant vitality, and it refers, first of all, to the special qualities expected in state enterprises that are commodity producers and dealers, as well as the socialist character that they are to embody. The article goes on to state that although the vitality of enterprises as commodity producers and dealers may be epitomized in a variety of ways, under the aspect of what is now necessary to revitalize the enterprises, the most important factor and the factor that has to be emphasized most is a many-sided and diverse competitiveness required by enterprises in the ongoing competition in the market. With this in mind, the author of the present article is effecting an integration of an appraisal of studies of the problem of international competition made by scholars in other countries with the actual conditions of China, and is enunciating in macroeconomic and microeconomic respects the various factors conducive to increasing vitality and competitiveness in enterprises, such factors being the economic system, the operational mechanism and economic structure, economic policies, science and technology, the actions of enterprise executives, etc. It is the author's opinion that if we only shall be able to effectively deal with the above-mentioned factors, it will certainly be possible to finally achieve the historical mission of revitalizing our state enterprises.

The author, Zhou Shulian, born 1929, is research fellow and director of the Institute of Industrial Economics of the Chinese Academy of Social Sciences.

In view of China's present condition, revitalizing the state enterprises requires above all that they become commodity producers and dealers, and that those who indeed have become commodity and dealers possess vitality. Otherwise, enterprises will be unable to acquire the kind of vitality that we demand, and it would not even be possible to make any such demands on them. By becoming commodity producers and dealers, enterprises will not necessarily acquire vitality; it will still be necessary to adopt measures in a great variety of ways to have them gain vitality. These are basic thoughts on the subject of revitalizing the state enterprises. The following discusses three problems relevant to these ideas.

### I. Enterprise Reform Aimed at Transforming State Enterprises Into Socialist Commodity Producers and Dealers

The aim of China's enterprise reform was to establish a socialist economic system that would show abundant vigor and vitality, and it with this purpose in mind that the Third Plenary Session of the 12th CPC Central Committee in its "Resolution on the Reform of the Economic System" explicitly stated: "It is our intention that enterprises truly become relatively independent economic entities, become socialist commodity producers and dealers, autonomous in their business operations, responsible for their own profits and losses, capable of self-reform and self-development, and that they become legal persons with certain rights and obligations." This has all along been the primary guiding idea in China's economic reform. However, some comrades have all along held different views, so that some comrades, for instance, have opposed "liberating the enterprises from their position of subservience to the government," holding the view that state enterprises "could not possibly assume own responsibility for profits and losses." Others thought that only by privatization can state enterprises become commodity producers and dealers. However, the latter proposition would change the character of the enterprises; they would no more be socialist enterprises, and allowing this to come about would obviously run counter to the objectives of China's economic reform. In view of these circumstances, it is necessary to discuss such issues as the objectives of the economic reform, the general characteristics of its intended commodity producers and dealers and their socialist nature.

To become commodity producers and dealers, state enterprises must acquire the special characteristics of commodity producers and dealers. Independence in business management, own responsibility for profits and losses, self-reform, self-development, production for the purpose of exchanges, etc., these are all parts of these general characteristics. Without acquiring all these special characteristics, state enterprises cannot possibly become commodity producers and dealers.

As commodity producers and dealers, enterprises will produce their products for the purpose of exchanges, and their products will come about by means of exchanges. These are basic characteristics of enterprises that are commodity producers and dealers. Engels said: "The 'commodity production' that we mention is that stage in the economic development where the production of materials is not only for the purpose of providing for the needs of the producer, but where materials are produced also for the purpose of exchanges, which means the materials become commodities and are not produced for the purpose of creating use value."<sup>1</sup> Lenin had also said: "The so-called commodity production refers to that kind of a social economic organization in which the product is produced by a special singular producer, and where at



the same time each producer specializes in the manufacture a certain product, and where it is therefore necessary, in order to satisfy all social needs, to buy and sell in the market (the products thus becoming commodities)."<sup>2</sup> Some comrades believe that even before the reform, production of commodities and circulation of commodities had occupied an absolutely dominant position in China's economic life. According to this version, state enterprises had very early already been commodity producers and dealers. This does not conform with reality. Comrades who hold this view regard procurement and allocation of products as a form of exchange and believe that the product becomes a commodity in the course of procurements and allocations. In my opinion, procurement and allocation of products as practiced under the traditional system was direct distribution and not commodity exchange, indeed was a kind of product allocation that precludes commodity exchanges. Precisely as Engels once said: "Direct social production and direct distribution preclude all commodity exchanges, therefore also preclude the transformation of products into commodities (at least within the commune) and the subsequent transformation of products into value."<sup>3</sup> A thorough understanding of this special characteristic that the purpose of commodity production is exchange, and that the value and use value of the commodities is realized through buying and selling, is of the utmost significance for a clear understanding why we have to carry out enterprise reform and what the objectives are in our enterprise reform.

Autonomy in business operations is obviously also a basic characteristic of the commodity producer and dealer. If an enterprise does not have autonomy in its business operations, if it is merely a bead on the government's abacus or an appendage of the government, it cannot possibly become a true commodity producer and dealer. However, opinions differ on this question. Some comrades say: "It will simply not do that the state relinquishes control of the national economy and ceases to interpose itself in the management and control of the large and medium-sized state enterprises." There are also other comrades who are against liberating state enterprises from their condition of appendages of the government. According to their version, the state's control of the national economy consists in fact in interposing itself in the internal management and control of state enterprises, and the government's guidance of state enterprises requires the direct management and control of state enterprises. In my opinion these views are not scientifically founded. It is of course necessary that the state exercise guidance and control of the national economy, but that is not tantamount to a need to interpose itself in the internal management and control of the state enterprises, and also not to a need for the government to directly manage and control the state enterprises. The CPC Central Committee's "Resolution on the Reform of the Economic Structure" had very early already pointed out: To ensure that the economic activities of all enterprises conform to the overall demands of the national economic development, the

socialist state organization must exercise through planning and by economic, administrative, and legal means the necessary control, checks, guidance, and regulation of enterprises. At the same time the enterprises must have autonomy in their business operations and management, and it is also necessary according to Marxist theory and socialist practice to appropriately separate ownership from managerial right. This shows that if we insist that the state continue to interpose itself in the business operations and management of the state enterprises, and if we insist that state enterprises remain appendages of the government without autonomy in their business operations, they will not be able to acquire the special characteristic of commodity producers and dealers.

Assuming full responsibility for own profits and losses is yet another basic characteristic of the commodity producer and dealer. On this question of own responsibility for profits and losses there are even more problems under dispute, and there is a greater need for a thorough study of the problems. For instance, there are some who say that assumption of responsibility for own profits and losses requires certain conditions, for instance, a separation of government and enterprise functions and responsibilities, also allowing the enterprises self-determination in their business operations; it also requires a well developed market system, a rational price system, etc. At a time when many enterprises lack these necessary preconditions, it is not yet possible to have them assume responsibility for their own profits and losses. There are also other comrades who say: if we insist, sweepingly and without regard for actual conditions, that the enterprises immediately assume responsibility for their own profits and losses, that the huge indebtedness of several tens of billions of yuan be now borne by the enterprises, this would obviously be irrational, and the enterprises would also not be able to bear this burden. State enterprises are therefore still quite unable to assume responsibility for their own profits and losses. I believe these viewpoints deserve further deliberation. The question that we are now to study is whether it is necessary and feasible to have the state enterprises, as commodity producers and dealers, assume full responsibility for their own profits and losses, in other words, whether in view of present conditions, we want to stress the demand that enterprises gradually assume responsibility for their own profits and losses so as to achieve an objective of the enterprise reform. If we do not institute responsibility for their own profits and losses, it will be impossible to expect the enterprises to generally show a strong sense of responsibility and initiative, impossible to generally establish a strict responsibility system and management control system, impossible to generally establish and perfect a system of self-restraints, and impossible to eliminate once and for all the presently ongoing irrational activities of the enterprises. As long as we are in favor of the objective of enterprise reform, namely to transform state enterprises into commodity producers and dealers, we have to consent that they must assume responsibility for their own profits and losses. Not only that, from either a

theoretical or a practical aspect, it is also quite feasible to have the enterprises assume this responsibility. In simple language "self-responsibility" of the enterprises means that the enterprises assume complete responsibility for their own profits and losses, that they have to cover their expenditure with income, and that if income is to some extent insufficient, they go bankrupt. This is how state enterprises operate in many foreign countries. If they can do it, why can't our Chinese state enterprises do it too? To prove that state enterprises cannot possibly be responsible for their own profits and losses, some comrades refer to foreign companies limited by shares. This is untenable as proof. Western companies limited by shares must be completely responsible for their own profits and losses, and if income is insufficient to cover expenditures they will go bankrupt. Isn't that responsibility for own profits and losses? As to the buyers of shares or shareholders, they too are jointly responsible for the losses of their enterprise, which proves that companies limited by shares are responsible for their own profits and losses.

Some comrades said: Responsibility of enterprises for their own profits and losses must have three basic preconditions. First, the enterprises must have the economic strength to bear losses. This economic strength may be available in some of our enterprises where losses are of not too large an extent, but not so where losses exceed a certain limit. Second, they themselves must be responsible for the occurrence of the losses. Under conditions of an imperfectly developed market system, many factors are restricting the business activities of our enterprises, and if we would still have the enterprises take full responsibility for everything, they could not possibly bear this kind of a responsibility. Third, rights and obligations must be in balance. That means, as we hold them responsible for losses, we must leave them their profits. At present the state still takes away a large portion of their profits, and the rights and obligations of the enterprises are not well balanced out. If these three preconditions are not given, enterprises cannot assume responsibility for their profits and losses. It is therefore believed that China's state enterprises cannot possibly carry out a complete assumption of responsibility for their own profits and losses. I believe the analysis of the three basic preconditions for the assumption of responsibility for own profits and losses, though somewhat imprecise, reflects actual conditions that presently prevail in China. The question is: Is it possible now when these three preconditions do not yet exist, to create them through an effective execution of reform measures? Why should it be impossible to institute the system of responsibility for one's own profits and losses? The first condition says that the enterprises could bear this responsibility only if they had own property to be used for that purpose. As far as state enterprises are concerned, this would demand that through reform a separation be effected between property at the free disposal of the enterprises and other state-owned property. This "other state-owned property" must not be used when it is a question of responsibility for losses of the enterprise

itself; only the property that is at the free disposal of the enterprise may be considered in matters of responsibility for own profits and losses. An enterprise whose losses exceed its capability of discharging its financial obligation must be declared bankrupt. This is the way in which state enterprises could institute the system of responsibility for own profits and losses. The second condition says that responsibility for own profits and losses will only be possible if the enterprises have autonomy in their business operations. The third condition says that responsibility for own profits and losses is only possible if there is a close integration of rights, responsibilities, and interests, and both these two demands could be fulfilled, and quite possibly so, through reform, and therefore make it absolutely possible for state enterprises to institute a system of responsibility for own profits and losses. Some comrades have suggested establishing a system of limited responsibility for own profits and losses, and I believe this is quite feasible for a certain period of time now and in the future, but it would amount to lowering our demands in the objectives of the enterprise reform. It is generally known that there are many types and varieties of such systems of responsibility for profits and losses. The system of business accounting, as practiced under the traditional system, is one system of responsibility for profits and losses. Another system is the enterprise-contract responsibility system, which is now being practiced. However, the system of one's own responsibility for profits and losses is a responsibility system with the highest demand, namely that the enterprise be fully responsible for all its profits and losses. Historical experience has demonstrated that if an enterprise is not fully responsible for its own profits and losses, it will be impossible for the enterprise to establish the economic mechanism that is required for any commodity producer and dealer.

Self-reform and self-development refers to the decision-making power of enterprises in matters of extended reproduction, which again is another basic and necessary characteristic of enterprises that are to become commodity producers and dealers. Comrade Sun Yefang [1327 0396 2455] had once suggested that enterprises must have decision-making power in matters of simple reproduction, while the decision-making power for extended reproduction shall rest with the state. Sun Yefang's theory has had an enormous stimulating effect, which is even now of great influence, but his opposition to decision-making powers of enterprises in matters of extended reproduction is out of keeping with the times, which only goes to show that no one is immune to the limitations of time. Without the decision-making power for extended reproduction, state enterprises can of course also have autonomy in business operations and be responsible for own profits and losses within the framework of simple reproduction, and can, within this sphere, become commodity producers and dealers. However, in that case they would be tied hand and foot in the fierce competition of the commodity economy, would thus be incapable of achieving ample vitality, and would

even less be able to come out victorious in any competition. At present, even the decision-making power of large- and medium-sized state enterprises in matters of simple reproduction is not necessarily well carried into effect, not to speak of any effective application in matters of extended reproduction. This is irrational. In view of the demand for a more intensified reform and revitalization of enterprises, it is necessary to emphasize the need for decision-making power for enterprises also in matters of extended reproduction, as a consequence of which they would indeed be capable of self-reform and self-development. As long as our enterprise reform will firmly uphold the socialist orientation and principle, and as long as we shall at the same time improve and strengthen the macroeconomic control, in accordance with what is now being demanded in the development of our planned commodity economy, action of the proposed nature will not lead to a state of anarchy in the extended reproduction throughout the entire society.

The separation of government and enterprise functions and responsibilities is also a basic characteristic in the conversion of enterprises to commodity producers and dealers. The CPC Central Committee's "Resolution on the Reform of the Economic System" explicitly pointed out: "Revitalization of our enterprises and of our entire national economy urgently requires that a reform be carried out on the principle of separating government and enterprise functions and responsibilities, and also on the principle of simplifying administration and delegating authority to lower levels." Even so, people have different views on this issue. Some believe: the socialist state possesses economic functions, the government must control the enterprises, government and enterprise affairs cannot therefore be separated from each other, any such separation would violate the principle of socialism. In my opinion, a condition of nonseparation of government and enterprise affairs makes it impossible for enterprises to become commodity producers and dealers. This is so because in a state of such nonseparation, the government will manage affairs that should be managed by the enterprises, and the enterprises will not have deserved autonomy in their business operations, thus remaining unable to institute a system of responsibility for their own profits and losses. As a consequence they would not be able to become commodity producers and dealers. This shows that the separation of government and enterprise affairs is a precondition for socialist state enterprises to assume decision-making powers in their business operations and to assume responsibility for their own profits and losses. We may say that the separation of government and enterprise affairs is crucial for the conversion of enterprises into commodity producers and dealers. Such separation does not mean, of course, that the state relinquish its economic functions, but means that the government should not concern itself with matters that must be taken care of by the enterprises. As to affairs that the government should take care of, it must of course take care of such, and must do so most effectively. On the one hand, the separation of government and enterprise affairs will have no influence

on the socialist character of the enterprises; the enterprises will still conduct their affairs according to the principles of socialism, and even do so more effectively. On the other hand, by a separation of government and enterprise affairs the government will also definitely not relinquish its economic control functions; it will enable the government to control the national economy even more effectively according to the principles of socialism.

The above explains some of the basic characteristics in the conversion of state enterprises to commodity producers and dealers. However, it is not an exhaustive explanation. Because the objective of our enterprise reform is not only conversion of state enterprises to simple commodity producers and dealers, but more importantly to have them become socialist commodity producers and dealers. Where then does the socialist character manifest itself? I believe it manifests itself mainly in the following few areas: First, in an affirmation of the socialist public ownership character of the enterprises and of their leadership role in the national economy. Second, in the fact that enterprise activities conform to the basic economic laws of socialism and the demands of the national economy for planned well-proportioned regularity. Third, in following within the enterprises the socialist principle of remuneration according to work performance. Fourth, in following the principle of democratic centralism in which staff and workers are recognized as masters of their own affairs. In short, it is not only that the reform will firmly adhere to the socialist orientation, but that the enterprises will at the same time be turned into true commodity producers and dealers. In other words, in the reform, the character of ownership of the enterprises by the whole people will be integrated with the responsibility of the enterprises for their own profits and losses; the profit motive of the enterprises will be integrated with the socialist production objectives; the exchanges at equal value between enterprises will be integrated with their internal system of remuneration according to work performance; the status of staff and workers as masters of their own affairs will be integrated with a full exercise of all the functions of the enterprise executives. It will be difficult to achieve these integrations; it will require sincere exploration of means and arduous effort, but it can certainly be done.

Incidentally it may be asked: Should in the course of the reform all existing state enterprises be converted to commodity producers and dealers? Not so. State enterprises which are engaged in special operations or on special tasks, as those with a naturally monopolistic character, state enterprises that are of a public utility nature, state enterprises of the war industry, and enterprises that undertake important tasks of the national economy and are unprofitable for reasons of government policy, are all enterprises that cannot or ought not become commodity producers or dealers, and some of these must continue to be state-owned and state-run enterprises. They are only a small minority, but they too must have certain decision-making powers concerning



their business operations and management, and should also institute a strict system of responsibility for profits and losses.

## **II. Enterprise Revitalization Is a Demand Made on State Enterprises That Are Commodity Producers and Dealers**

Enlivening state enterprises has by now become an issue that has the attention of the whole nation, but what is the actual meaning of "enlivening?" Conceptions on this point differ widely. In my opinion, whenever the need to enliven the state enterprises is referred to it means primarily converting them gradually through reform to commodity producers and dealers. Unless the issue is understood in this way, it will be impossible to achieve any revitalization of the enterprises. The subject of revitalizing the state enterprises has been brought up for a considerable time already, and in many places policy measures have been repeatedly set forth to revitalize the state enterprise system, why is it then that all these efforts have not been able to actually revitalize the enterprises? It is probably very much due to an insufficient understanding of the issue.

According to one viewpoint, enlivening the enterprises is regarded as helping state enterprises solve some immediate difficulties. Generally speaking, at this time when all of society regards revitalization of enterprises as important, it is also a time when the state enterprises face serious difficulties, so that enlivening the enterprises will of course also have to comprise this issue of helping the enterprises solve their difficulties. However, if enlivening the enterprises is merely regarded as helping the enterprises solve some immediate difficulties, as e.g. granting some additional loans, buying up some of their products, effecting some technological transformations, relieving them of some of their burdens, etc., and if none of the necessary measures are taken to gradually convert the enterprises to commodity producers and dealers with decision-making powers in their business operations, with responsibility for their own profits and losses, and with capability for self-development and self-reform, it will be impossible to truly revitalize them, and there would be even less justification to claim accomplishment of the task of enlivening the enterprises. This kind of a situation is what I would call making "low demands" in the matter of enlivening the enterprises.

According to one report: After the State Council had promulgated eleven measures for the further enlivening of state-run large- and medium-sized enterprises, some enterprises gave primary consideration to large-scale investments in technological transformations. As this had become key concern, the relationship between government and enterprises was handled without paying particular attention to implementing the rights of enterprises to manage their own business operations, but emphasis was rather placed on fighting for more capital

and to gain more projects, on demanding of the government more flexible conditions in the enterprise management contracts, as well as on preferential treatment in matters of credit, approval of investment plans, on helping enterprises break down trade barriers, and on entering new lines of business. The author of the report is partly happy and partly worried about this situation; he expresses the opinion that although technological transformation is being promoted, there is developing a state of "setting up new vendor stalls" and "chasing after new projects," while not at all attempting a radical solution of the technological transformation and capital fund issues. This clearly shows that we must not make "low demands" in the matter of enlivening the state enterprises, but should rather insist on "high demands."

The demand for a revitalization of state enterprise has been very clearly voiced ever since the start of the reform. The CPC Central Committee's "Resolution on the Reform of the Economic System" explicitly pointed out that "strengthening the vitality of the enterprises is a key link in the reform of the economic system." It also pointed out that as we accept strengthening enterprise vitality as key link, it is most important that we find an effective solution for the problem of two relationships, namely establishing a correct relationship between the government and the enterprises owned by the whole people with an expansion of the decision-making powers of the enterprises, and establishing a correct relationship between the staff and workers on the one hand and the enterprises on the other hand, while affirming within the enterprises the status of masters of their own affairs for all workers. It shows that the demands put forward in the "Resolution" are very high ones, and that converting the state enterprises into commodity producers and dealers is only the minimum task that is being demanded.

Even before the start of the reform, there had been a demand made in the national economy for "control but not stifling control, vitality but not chaotic activity," but under the traditional system it had been very difficult, or even impossible, to fulfill this demand. What frequently happened was that when controls were imposed, they stifled, and when relaxation was allowed, it became chaos. Strictly speaking, it was impossible for state enterprises under the traditional system to put forward the demand for a revitalization, and there was furthermore no chance of any such revitalization; this was the consequence of what at that time was conceived as the special characteristics and tasks of the enterprises.

Under the traditional system, the main characteristics of state enterprises had been:

1. Ownership by the state of all means of production of enterprises; without instructions or approval of the state, enterprises could not transfer means of production.
2. Production activities of enterprises had to obey the state's centralized leadership and planning.
3. Products of the enterprises belonged to the state and were subject to centralized distribution and allocation by the state.
4. Enterprises had to turn over profits and taxes to the state

according to regulations. 5. Staff and workers in enterprises were centrally allocated according to state plan; salary and wage tariffs and the salary and wage system for staff and workers were centrally determined by the state.

The above-listed characteristics were prescribed to manifest the special character of state enterprises as being owned by the whole people; no violation of these rules was allowed. Obviously, it is impossible to effect a revitalization of state enterprises of this nature.

Of course, even under the traditional system, state enterprises had a certain measure of independence, and at times did emphasize this kind of independence. Would this have made it possible to revitalize the enterprises? Even that would not have made it possible. It was stipulated at that time that state enterprises shall be entities with independence in their business operations and independent accounting; this endowed enterprises with a certain independent character under the state's centralized guidance and centralized planning. For instance, it was prescribed: If an enterprise is left with surplus production capacity after determination of the enterprise plan, it may accept local assignments or production tasks requested by other units, if it has the capacity to do such work, on the condition of first completing all its tasks under the state plan, of not using materials allocated under the state plan and of observing the principle of exchanges at equal value, and after having obtained approval from the higher administrative agency in charge; enterprises shall have the right to use enterprise funds provided by the state to improve working conditions or the livelihood of its staff and workers, etc. However, all these provisions had the purpose of having the enterprises fulfill and overfulfill the state's mandatory plans. That was the primary and fundamental task of the state enterprises at that time, as it was also the clear and definite demand made by the state on the state-run enterprises. Under these circumstances it was of course impossible (and actually never done) to put forward a proposal for a revitalization of the enterprises.

If it is now proposed in the reform to revitalize the state enterprises, it means that it is the intention to gradually change the situation in which "state-owned" always meant "state-run." It means having the state enterprises assume the fundamental special characteristics that have been mentioned in earlier paragraphs, having them become commodity producers and dealers with decision-making powers in their business operations and with responsibility for their own profits and losses. Only when the state enterprises will have decision-making powers in their business operations and will have assumed responsibility for their own profits and losses will there be the motivation and also the preconditions for a revitalization. Since the start of the reform, the CPC Central Committee and the State Council have promulgated a series of documents, the National People's Congress too passed the "Law Governing Industrial Enterprises Owned by the Whole People," provisions which gave

state enterprises certain rights in matters of planning production, the right to determine products, the right to set prices, the right to purchase materials, the right to institute technological transformations, the right to dispose of fixed assets, the right of internal organizational arrangements and personnel dispositions, the right to deal with labor personnel questions, the right of internal distributions, the right to arrange cooperation and joint managements, etc., all for the purpose of providing the preconditions for the revitalization of the enterprises. Practice has proven that enterprises which effectively implemented these provisions indeed became revitalized or began to show signs of revitalization. However, many enterprises could not implement the said provisions because with them the traditional system still played an important, sometimes even decisive role. As a consequence these enterprises did not enhance their vitality, and will hardly be able to do so.

Everybody agrees that China's township enterprises and foreign-funded enterprises show more vitality than the state enterprises. Why is that so? I believe it is so essentially because some of these enterprises are already true commodity producers and dealers and some are close to becoming true commodity producers and dealers, while the state enterprises, especially the large and medium-sized state enterprises, are still very far from becoming commodity producers and dealers. This is the cause for the great disparity between the two types in their operational mechanisms. For instance, in the matter of autonomy in business operations, the township enterprises and foreign-funded enterprises are guided by the market. They effect changes where profits demand such, and in matters of business policies, developmental strategies, marketing methods, employment system, internal distribution, organizational setup, etc. they are free to decide all by themselves without basically any interference from outside. State-run enterprises, on the other hand, suffer restraints from many sides at every link of their production and business operations. They have basically not extricated themselves from the state of dependence on the relevant administrative agencies. In the matter of responsibility for own profits and losses, township enterprises and foreign-funded enterprises are economic entities that do have assumed responsibility for their own profits and losses not only in name but in reality. State enterprises, on the other hand, are still incapable of doing so. Enterprise executives as well as their staff and workers lack the mentality for an assumption of own responsibility for profits and losses. In matters of self-development, township and foreign-funded enterprises are not only active subjects in business operations, but also active subjects of investments and of all self-development. The state enterprises, on the other hand, are not only limited in their decision-making powers but even more restricted in their freedom of action when it comes to self-development. All this shows that enhancing the vitality of the large and medium-sized state enterprises requires a change in the operational

mechanism and to truly convert them into socialist commodity producers and dealers with an ample measure of vitality.

What, then, is enterprise vitality? There is a popular saying to the effect that an enterprise shows vitality when it turns over to the state a large amount of profits and taxes. This statement is debatable. Under the traditional system, the enterprises were in this way required to fulfill or overfulfill their tasks of turning over taxes and profits to the state, but there was never any demand to actually enliven their business operations. At present, there are a number of enterprises that turn over to the state large amounts of taxes and profits without themselves having any vitality at all. Some also, precisely because of their turning over too much in profits and taxes, exhaust their capital funds, deprive themselves of logistics, and as a consequence lack the strength for any revitalization. It is of course a necessity that state enterprises are under obligation to turn over to the state profits and taxes, and as they increase their production and enhance their efficiency they should strive to turn over more, but we ought not equate the amount of profits and taxes turned over to the state with any increase in vitality in the enterprise in question.

There is yet another popular saying which expresses that vitality is the "life-force of high prosperity" exhibited by an enterprise, or rather the "life-force" which an enterprise shows in the course of its production and reproduction. The former version is a synonymous repetition which cannot explain the problem. The latter version is also too sweeping and does not reflect the special characteristics of vitality in enterprises which are commodity producers and dealers, and can therefore also not be considered a proper answer to the question.

In enterprises which are commodity producers and dealers, vitality is of a very rich content, and when viewed from different angles one may arrive at different results. Seen under the aspect of revitalizing the large and medium-sized state enterprises, as presently demanded, the most important factor, and the factor that must be emphasized the strongest, is the competitiveness of the enterprises. Competition is a general characteristic of the commodity economy. Lenin once said: "Free competition is a fundamental characteristic of capitalism and of the common commodity production."<sup>4</sup> Enterprises engaged in commodity production must quite naturally participate in competition, enterprise competition is objectively extant, and competition, furthermore, serves to have the superior prevail and the inferior eliminated. We therefore describe the manifestations of an enterprise in the competition as the competitiveness of the enterprise. Enterprise competitiveness has also many facets, such as qualitative competitiveness, competitiveness of the product mix, competition in production costs, competition in pre-sale and post-sale services, etc. All these indicate under different aspects the vitality of an enterprise.

The competitiveness of an enterprise shows in the competition in the marketplace, where it can be measured fairly objectively. We frequently use the profit margin (comprising such indices as the profit margins of capital funds and of output value, the profit plus tax ratio to capital and the profit plus tax ratio to output value) to indicate the quality of its business operations or the extent of its vitality, but it is only when market competition is initiated and when the enterprises participate in market competition, that we gain fairly objective indices for the situation. Without instituting market competition, prices are not determined by the market but by the plan, and in that way prices are set either too high or too low, which is the reason why the profit margin as index will not necessarily objectively indicate the state of business operations of various different enterprises. Under these conditions, enterprises that appear as of great vitality may not necessarily have real vitality, and enterprises that appear as of no vitality may not necessarily and truthfully lack vitality. In both cases the indices are not convincing. If market competition is instituted and prices are determined by the market, and if enterprises participate in the market competition under equal conditions and without being afforded preferential treatments, the profit margin index could fairly objectively reflect the vitality of the enterprises.

It may be asked: Capitalism requires competitiveness, what, then, is the difference between the competitiveness of socialist enterprises and the competitiveness of capitalist enterprises? There are similarities as well as differences between the competitiveness of socialist enterprises and the competitiveness of capitalist enterprises. It is exactly as pointed out in the CPC Central Committee's "Resolution on the Reform of the Economic System": "With commodity production there naturally has to be competition; it is only that under different social systems the purpose, character, scope, and methods of competition differ." The said "Resolution" furthermore pointed out that competition between socialist enterprises, being conducted "on the foundation of the public ownership system and controlled by the plan and decrees of the state, also on the premise of serving the socialist modernization projects, will allow the enterprises to be directly evaluated and tested in the marketplace by the large number of consumers, so that the superior will prevail and the inferior will be eliminated." It is for this reason that I believe that the most important characteristic of competitiveness of socialist enterprises is that the display of this kind of competitiveness must conform to the socialist economic laws and socialist principles, must be beneficial for the socialist economic development and for the realization of the socialist production objectives. It is quite possible, although also very arduous, to achieve this, and it is particularly because of the arduousness of the task that we have to be sufficiently knowledgeable. Some people say: "The system of public ownership of the means of production determines that the basic profits of socialist enterprises participating in competition are uniform, that the objective of the competition is common to all,

that there is a close cooperative relationship, and that it is an orderly competition which respects social ethics and the laws of the land, and observes discipline." This version is perhaps oversimplifying things. When a socialist enterprise participates in competition it has its own particular interests and particular objectives, and cooperative relationships may also suffer negative influences from the competition; there may also occur violations of social fairness, violations of law and discipline, etc. The socialist system of public ownership is providing fundamental and favorable conditions for the appropriate solution of these problems, but one should never assume that the socialist public ownership system per se is sufficient to ensure the solution of these problems. That would still require effective work in the various fields of economics, law, ideology, and education, comprising effective work of the enterprises, and raising the socialist quality of the enterprises. The CPC Central Committee's "Resolution on the Reform of the Economic System" warned us: "It is possible that competition gives rise to certain negative phenomena and violations of the law. Relevant leadership organs at all levels must maintain clear-headedness in this respect, strengthen education and control, and sincerely devote themselves to the proper solution of these problems." It is only in this way that the socialist character of the competitiveness of enterprises can be ensured.

### III. How Is Revitalization of State Enterprises To Be Accomplished?

Even though some state enterprises have initially been revitalized, there are people who still believe that it is not possible to revitalize the state enterprises, and that is could only be accomplished if they would be denationalized and privatized. This viewpoint lacks any foundation. Even in capitalist countries there are state enterprises, and in some countries these are operated quite productively or even very much productively. Ayub and Hegstad, staff of the World Bank, have written a book, entitled "Decisive Factors for the Success of Industrial Enterprises of the Public Ownership System," based on materials gathered in their investigations in 13 countries and territories, among them Austria, Brazil, France, India, Israel, Italy, and Sweden. Judging by the material presented in this book, some state enterprises have been operating their businesses as well, and sometimes even better than private enterprises. The authors of the said book believe the quality of business management in enterprises does not depend on the ownership system, but rather on the following three factors:

1) The competitive environment, i.e. the extent to which the enterprises face competition. State-owned industrial enterprises in an environment of rather fierce competition achieve very good results in their business operations, and do not do well if conditions are otherwise.

2) Authority and responsibility in financial affairs. State-owned industrial enterprises that work with own authority in financial matters and under a system of own

financial responsibility are generally more successful in their business operations, and do not do well if conditions are otherwise.

3) Autonomy in management and the management responsibility system. State-owned industrial enterprises that have autonomy in their management and that work under a management responsibility system are generally more successful in their business operations, and do not do well if conditions are otherwise.

The conclusions of the said book are based on a large quantity of facts and are therefore very trustworthy.

Many impartial and experienced foreign economists believe that it is possible to enliven state-owned enterprises. At the international forum on the management of state property, convened in 1990 by the Chinese Bureau of State Property Management, Lao-lun-te [name as transliterated], advisor to the Public Enterprise Management and Private Enterprise Development Department of the World Bank, said: "To solve the existing problems of state-run enterprises, some have simply proposed privatization as the only way out. I believe this is an erroneous conclusion, as it is also possible to improve the business conditions of state-run enterprises in other ways, without privatization. France has had many state-run enterprises, and without changing the nature of the ownership system, it has improved their business methods in the course of its enterprise reform and as a result achieved great improvements in the business operations of its state-run enterprises." He also pointed out: Any profit-making enterprise, regardless whether it is state-owned or privately owned, must strive for high efficiency and high returns. To successfully maintain their positions in the market competition, they must all have competent business managers who will independently manage the enterprises on the principle of achieving high returns, and who must have the capability of quickly reacting to market signals. If they lack these preconditions, they may face bankruptcy. At the said meeting, the New Zealand specialist, by the name of Anderson, also expressed the opinion that whether privately run or state-run enterprises will achieve higher returns will in the end mainly depend on the market in which the enterprises are operating, and on the financial and regulatory environment. To achieve high economic returns, private enterprises and state enterprises will have to make identical demands on their business environment, of which the following three demands are the most fundamental: 1) Separation of the commercial objectives that the enterprise wants to achieve from its social objectives; 2) creation of a competitive market for the sale of the enterprise products or services; and 3) effective supervision and control of the enterprise by the owners of the enterprise.

The conditions that they set forth for any revitalization of state enterprises amount in essence to what we have stated, namely turning the state enterprises into commodity producers and dealers with autonomy in their business operations, responsibility for their own profits



and losses, and capable of self-development and self-restraint. In this conversion to commodity producers and dealers, the enterprises will of course never relinquish their relations to the market, and there actually has to be a competitive market. In a series of documents, the CPC Central Committee and the State Council have clearly prescribed that the state enterprises have the right to choose flexible and diverse business methods, the right to arrange their own production, supply, and marketing activities, the right to have and allocate their own retainable funds, the rights to employ and dismiss working personnel according to regulations, the right to decide on labor employment methods and methods of paying wages and bonuses, and the right to determine prices for their products within prescribed spheres. Endowed with all these decision-making rights, the enterprises will be capable of freely managing their business affairs and of effecting self-development, and as a consequence be able to achieve revitalization. However, all these decision-making rights have not yet been implemented in many enterprises; they will have to be seriously implemented in the course of deepening the reform.

Revitalization of state enterprises requires furthermore implementing the responsibility for own profits and losses and self-restraint, where the former is again foundation for the latter. The "Law on Industrial Enterprises Owned by the Whole People" prescribes: Enterprise property is owned by the whole people, while the state, in accordance with the principle of separating ownership rights from managerial rights, bestows operation and management on the enterprises. With regard to property for which the state has bestowed operation and management to the enterprises, the enterprises have the right of possession, use, and lawful disposition. It furthermore stipulates: "Enterprises shall gain the status of legal persons according to law; they bear civil responsibility in respect of property for which the state has bestowed operation and management to them." Since the state enterprises are actually enjoying the right of possession, use, and lawful disposition in respect of property for which the state has bestowed operation and management to them, they are in a position to institute responsibility for own profits and losses. However, the problem of responsibility of state enterprises for their profits and losses is presently by far not yet solved. I believe one precondition for having the state enterprises assume responsibility for their profits and losses is that there has to be a strict separation between property which the state has given the enterprises for their free disposition and the other property of the state. In this sense we may then say that the enterprises must have their own property, and the enterprises may then also use this proportion of property to bear by themselves complete responsibility for their profits and losses, while at the same time maintaining for this property its character of being owned by the whole people. The problems that will arise when realization is sought for the forms and methods demanded in the above are problems that must be solved in the course of deepening the reform.

I once recommended the shareholding system as one method (not the only one) to enable the state enterprises to assume full responsibility for their profits and losses, because it would make it possible for enterprises to obtain ownership rights as legal persons, and thus have property which they themselves could dispose of, while the state will retain the ultimate ownership right. In this way the system of ownership by the whole people will still be maintained. The shareholding system could therefore be a target to aim at in the reform of the state enterprises. I still uphold this proposal, but of course do not oppose any other scientifically founded proposal. Some comrades believe that the ultimate ownership of the state and the economically effective ownership of the enterprises would "possibly have the state ownership exist in name only while it would in reality cease to exist, and that it would transform the ownership by the whole people in reality into the ownership of the enterprises." I don't deny this possibility, but it need not of necessity occur. The ultimate ownership of the state and the enterprises gaining ownership as legal persons, according to my proposal, will not at all have the state ownership remain in name only while in reality ceasing to exist, because although the enterprises will have their own property, the ownership by the whole people will in reality still exist. Since the "Law on Industrial Enterprises Owned by the Whole People" stipulates that state enterprises shall enjoy the right of possession in respect of property which the state has bestowed on the enterprises for operation and management, isn't that really saying that the state enterprises have property rights in respect of the said portions of property? Why should it not be possible to refer to it as property of legal persons? Some comrades said: The socialist public ownership system is "by itself clear and definite, well-defined and unquestionable, so that there is nothing problematic about its being a system of 'blurred property rights,' 'ownerless property,' or 'indistinct property borders.' If we speak here of 'blurred property rights,' and 'ownerless property' it seems as if we take it that the question of the ownership system has not yet been resolved. This does not conform to reality, can very easily lead to ideological confusion, and may even create chaos in actual practice." I am also against criticizing the public ownership system in a sweeping way and with much exaggeration as being a system of "blurred property rights," "ownerless property" and "indistinct property borders," and rather suggest to study and analyze the issue in a serious scientific attitude. The ownership system is of an extremely complex content, and Marx had once remarked that it is the sum total of the production relations. If we were to analyze realistically the shortcomings of the ownership system under the traditional system and reveal in an appropriate way the "blurred property rights" and other such phenomena, get people to view this problem as important and wanting to study the problem, it would not only be a necessary endeavor, but could also in the end prevent ideological confusion and chaos in actual practice.



There is now a common understanding among many people that changing the operational mechanism in enterprises is the crucial factor in revitalizing the state enterprises. This is undoubtedly a correct viewpoint, but it is here also necessary to have a correct understanding of the matter. Some comrades take the operational mechanism of the enterprise to mean merely the internal mechanism of business operations within the enterprise, and this is not a comprehensive conception. In common language, the operational mechanism of the enterprise refers to the various subjective and objective factors that determine the business activities of the enterprise. It has to include all relevant internal and external factors of the enterprise. The internal operational mechanism of the enterprise usually refers to the internal business operations and management of the enterprise, and these are of course also extremely important for the revitalization of enterprises, but we must under no circumstances overlook the relevant external factors of the enterprises. For instance, many people emphasize that in order to revitalize the state enterprises it is necessary to move the enterprises toward the market, and that this is the important point in changing the operational mechanism of the enterprises. However, if the market has not yet taken shape, if mandatory plan norms and other policy measures constitute obstacles to entry into the market, how can the enterprise be moved to the market and revitalization of enterprises be promoted? To move the enterprises toward the market will therefore not only require a solution of the problems of their internal operational mechanisms, but also of questions of their external operational mechanism. Recently, Beijing Municipality launched the first pilot project of expanded business autonomy in six large and medium-sized state enterprises, one of them the People's Machine Factory. Guided by such principles as freeing oneself of old ideas, seeking truth from facts, and "providing water to raise fish," as the saying is, the Beijing Municipal CPC Committee and the Beijing Municipal Government provided excellent external conditions in respect of personnel, finance, and materials for the enterprises selected as test cases. Although the six enterprises employed different patterns in the changes of their operational mechanisms, all came to enjoy ample decision-making authority in their business operations and achieved certain successes and gained experiences. I believe the guiding ideas and the methods applied by Beijing Municipality are correct. In order to avoid having the operational mechanism of enterprises understood merely as the internal operational mechanisms, it may here perhaps be more appropriate to call that mechanism the economic, rather than the operational mechanism of the enterprises.

If we intensify the reform and in its course convert the state enterprises into commodity producers and dealers, we may be able to revitalize the enterprises. That does not mean, however, that they will definitely become revitalized by merely going that way, because revitalization depends not only on the economic mechanism, but

also on a number of other factors. We must therefore pay attention to the functions of these other factors.

What are the main factors that determine the vitality of an enterprise? The theoretical side of this problem has not yet been sufficiently researched by us. We have already mentioned in the above that enterprise vitality mainly refers to its competitiveness, and we should therefore study here what the factors are that determine enterprise competitiveness. On this problem, foreign studies have been more abundant, but with a great disparity of opinions. Some economists believe that enterprise competitiveness depends on the key elements of production, namely the relative superiority in such areas as labor force, capital, and natural resources. Some economists believe government policies and the socio-economic environment, especially the market environment that they create, play a decisive role in the competitiveness of the enterprises. Some economists believe that manpower resources play a more important role than natural resources in the competitiveness of enterprises. Some economists believe that enterprise competitiveness is mainly determined by the technological and managerial quality of the enterprises. There are also some economists who emphasize that the enterprise executives play a decisive role in the competitiveness of the enterprises.

The World Economic Forum at the International Institute for Management Development at Lausanne, Switzerland, has devoted itself assiduously, starting in the 1980's, to the comparative study of international competitiveness of relevant countries of the world. Its work has attracted serious attention among the economists, entrepreneurs, and decision-makers of all countries. Their views are also valuable for us to consult in our studies of enterprise competitiveness. They regard international competitiveness as a comprehensive concept which comprises two related areas, one being the competitiveness created by the internal efficiency of the enterprise, and the other being the competitiveness due to the environment. They also point out that international competitiveness depends on the following five factors:

- 1) The factor of change, which comprises manpower resources, financial vitality, and natural endowments; 2) the processes of change, which depend on industrial efficiency, internal renovations within the enterprise, and its outward orientation; 3) environment, which comprises economic vitality, market orientation, government interference, and social and political stability; 4) self-confidence of the enterprise, which indicates the appraisal and judgement of the enterprise managers in respect of their country's international competitiveness; and 5) industrial ranking order, which indicates the proportion at which ten large export industries of the various countries and territories share in the international market and the increases and decreases in their trade volumes.

These five key elements influence international competitiveness to different degrees. Generally speaking, the process of change and the industrial ranking order change fastest and have the most direct and most rapid effect on international competitiveness. The change of environment requires a fairly extended period of time to have an influence on the international competitiveness. Development of manpower resources will have a long-range influence on international competitiveness, and its importance will become more obvious in the course of time. They first use a variety of different indices to reflect the international competitiveness of some countries and territories, and these indices are: 1) Economic vitality; 2) industrial efficiency; 3) market tendencies; 4) manpower resources; 5) state interferences; 6) rational use of resources; 7) tendency toward internationalization; 8) future tendencies; and 9) socio-political stability.<sup>5</sup>

Professor Bo-te [name as transliterated] of the Harvard Institute of Economics in the United States published a book in 1990, entitled *Competitive Advantages of the State*, in which he analyzed and researched the international competitiveness of the 10 most important trading countries and territories of the world. In his opinion, the international competitive superiority of a country depends on four key elements:

1) Conditions of production elements. Elements of production can again be divided into key elements and promotional elements. The former refer to the originally inherent elements of a state, and the latter to the elements that have been created through investments and development. They can also be divided into common elements and special elements. The former refer to elements that generally exist in every country, and the latter to certain elements available only in one specific country.

2) Condition of demand. He believes that the demand by domestic buyers can create a certain pressure on factories and traders to continuously improve as much as possible product mix, efficiency, and service quality, and that this also proves beneficial in the international competition.

3) Related and supplementary trades. The existence of highly efficient related or supplementary industries can play a positive role. If the upstream industries have international competitive superiority, it will help the downstream industries establish themselves as of international standing.

4) Strategy and structure of enterprises in the competition.

Apart from the above-mentioned four key elements, there are two additional elements: One is favorable opportunity, which refers to a superiority in the international competition not created by the country's enterprises themselves. The other element is the government, which mainly refers to the effects of government policies on international competitive superiority. Bo-te

expressed the opinion that all the above-mentioned four key elements together determine a country's international competitive superiority, so that if only one of the four elements is present, it will not be possible to maintain international competitive superiority for any length of time.

The reason why economists differ so much in their opinions on enterprise competitiveness is due to the fact that there are indeed very many implications and constraints in enterprise competitiveness. In the case of China, considering the composite competitiveness of the whole group of state enterprises, there are, in addition to the decisive role being played by the economic system, also the following relevant elements that we must not overlook:

1) Economic structure, in particular the industrial structure and the organizational structure of enterprises. At present, there are still many irrational phenomena in China's industrial structure. If these problems are not resolved, many problems of great complexity will later arise in production, supply, and marketing, with adverse effect on the competitiveness of the enterprises. The organizational structure of China's enterprises, with its serious duplications in production and construction, is also irrational, and this renders many enterprises incapable of achieving right-scale returns, which in turn results in the lack of competitiveness of such enterprises.

2) Economic policies. This comprises financial, currency, credit, taxation, industrial production, income distribution, and the "opening up" policies, which are all having an impact on the competitiveness of the enterprises.

3) Scientific and technological progress. In our present era, progress in science and technology is advancing with lightening speed and playing an ever more important role in economic growth, and its impact on the competitiveness of the enterprises is increasing correspondingly. Some foreign scholars believe that competitiveness is not anymore primarily determined by the possession of raw materials and the low cost of manpower, but rather by the competing party's capabilities in creating, obtaining, and applying knowledge and technology.

4) Management of the economy. This comprises macroeconomic control and business management in enterprises. Presently, the effects of macroeconomic control on the competitiveness of the enterprises is very conspicuous. Even if the system of planned commodity economy will later be established and control of the national economy will change from a predominantly direct to a predominantly indirect control, macroeconomic control will still have an important impact on the growth and development of the competitiveness of the enterprises. As to the business management in enterprises, this too is frequently playing a decisive role in its effect on the competitiveness of the enterprises.

5) Cultural affairs and education. Enterprise competitiveness is not merely determined by economic factors,

as there are also cultural, educational, and other social factors involved. Many Chinese and foreign entrepreneurs believe that the essence of competitiveness lies in the human resources, and that in the development of human resources and strengthening the human resources it is cultural and educational work that shoulders the mission. We may say therefore that enterprise competitiveness is fundamentally a kind of socio-cultural phenomenon.

Apart from the above-mentioned factors, we must also not overlook the role played by entrepreneurs in the competitiveness of our state enterprises. In the course of the reform of the economic system, and following the gradual conversion of state enterprises to commodity producers and dealers, there will arise a group of socialist entrepreneurs. Entrepreneurs are the ones who lay the foundation for the enterprises, who conduct their business operations, and who continuously work to advance the affairs of the enterprises. In the interest of strengthening the competitiveness of the enterprises it is therefore necessary to afford full opportunity for socialist entrepreneurs to play their part. After the start of the reform, the functions of the socialist entrepreneurs had for a time been emphasized, but later it received less attention. I believe that this role of the entrepreneurs is still to be viewed as important and must be emphasized. One important reason why we now have some state enterprises which are doing quite well and which are showing strong competitiveness is that they have a good leadership team, and that there are undoubtedly socialist entrepreneurs members of the leadership team. This shows convincingly that we must attach importance to the role of entrepreneurs. However, some comrades have raised certain doubts as to emphasizing the role of socialist entrepreneurs:

1) Can there be entrepreneurs in a socialist society? As a matter of fact, as long as there will be commodity producers and dealers, there will of course also be entrepreneurs. It is only that the socialist entrepreneur will have, in addition to the general characteristics of entrepreneur, also the special characteristics of a socialist entrepreneur, which means he will be upholding the socialist orientation and principles and will handle all affairs according to the laws of the socialist economy. By now we have already quite a number of socialist entrepreneurs, how could we thus deny their existence.

2) Can entrepreneurs effective function without a sound and well-developed market system? On this question, the Japanese economist Masazumi Ikemoto said in his book *Secrets of the Entrepreneur*: "The so-called entrepreneur is a person who comprehensively devises and regulates the relationships between already activated or not yet activated regions of market trade, the entrepreneur is then what is commonly called a 'market regulator'." "The role of the entrepreneur is thus also to supplement any imperfections in the functioning of the market organization. In a full mobilization of elements of production that are not yet amenable to market forces, to have him bring these elements highly effectively into

play, will completely depend on the business and managerial capability of the entrepreneur." All Chinese and foreign practice has demonstrated that the entrepreneur can certainly play a role under normal conditions of the market, and equally so under abnormal conditions of the market. A prosperous development of the enterprise depends on the entrepreneur, and the establishment and development of the market also depends on the entrepreneur.

3) Is there a conflict between the effective functions of the entrepreneur and the role of the entire body of staff and workers? In my opinion there is no conflict at all, because there are here two criteria involved for the correct handling of problems that are aiming at quite different problems, and both are correct, can be implemented simultaneously, and do not preclude one another.

In short, the various doubts that have been mentioned in the above are unfounded and are also unnecessary.

In the above, the question of how to enliven the state enterprises was studied from the angle of the national economy. If it is approached from the microeconomic angle, enterprise revitalization appears as the task of every single enterprise itself. It is therefore necessary to study the question of how to strengthen enterprise vitality and competitiveness from the standpoint of the enterprises themselves. There is here, first of all, the problem of how to deal with enterprise vitality in a dialectical way. That is, that when we raise the question of enterprise revitalization, it does not mean that every single enterprise can be revitalized. The extent of vitality of an enterprise and the extent of its competitiveness are to be taken as comparative terms. Through market competition, enterprises of strong vitality and competitiveness will gain development; enterprises of weak vitality and competitiveness will not only not gain development, but may even face elimination. Presently, the organizational structure of enterprises is irrational, and some enterprises cannot and do not deserve to stay alive. In future, even with improved enterprise organization and with the establishment and improvement of the system of planned commodity economy, it will still be the case that some enterprises will be able to survive and some will not be able to survive. As to which will and which will not survive, that will primarily depend on the enterprises themselves. It is therefore necessary that each enterprise exert efforts to raise its vitality and competitiveness. Judging by the present situation, the efforts of enterprises to raise their competitiveness will have to take place in the areas of internal reform, business management, technological progress, strengthening the contingents of their staff and workers, and the strengthening of their leadership teams. As long as the enterprises will effectively accomplish these tasks, and if in addition the governments at all levels will exert efforts and the external environment will be improved, it will certainly

be possible to gradually strengthen vitality and competitiveness in China's state enterprises, and to ultimately accomplish the historical mission of revitalizing the state enterprises.

#### Footnotes

1. *Selected Works of Marx and Engels* Vol 3, p 381.
2. *Collected Works of Lenin* Vol 1, p 72.
3. *Selected Works of Marx and Engels* Vol 3, pp 347-348.
4. *Selected Works of Lenin* Vol 2, p 807.
5. See "International Competitiveness; Facing a Most Recent Subject," by Zhao Ai [6392 5337] in SHIJIE JINGJI DIAOYAN [WORLD ECONOMY RESEARCH] No 31 1991.

#### Economic Efficiency of State Enterprises Examined

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[Article by the "Taskforce on Policy Directions for Invigorating Large- and Middle-Sized State-Owned Enterprises," of which Wang Mengkui (3769 1125 1145) is the leading cadre, Guo Zhenying (6753 2182 5391) and Lu Jian (4151 1696) are directors, and Comrade Yuan Mu (5913 2606), director of the State Council Research Office, is advisor: "An Investigation on Economic Efficiency of State-Owned Industrial Enterprises"]

[Text] [Note] *This report, which uses 10 economic statistical indexes, such as net output value, as its key evaluation criteria, points out that this investigation of the current state of economic efficiency in China's state-owned industrial enterprises has discovered that since the Seventh Five-Year Plan, while China's state-owned industrial enterprises have increased in overall economic might rather quickly, their overall economic efficiency is still generally declining. The major reason for this within enterprises is that enterprises lack a competitive development mindset, with increases in wages and welfare funds being arbitrarily "accommodating," management costs being too high, business management being poor, work discipline being lax, and collective enterprises siphoning off from state-owned ones. As to external conditions, the major cause of declining efficiency is that macroeconomic regulation and control is unfavorable to creating a high utilization rate of enterprise production capability, with old priority enterprises having long been overburdened with payments to state revenue, funds lacking for the replacement and technological upgrading of equipment, proper enterprise rights and interests lacking legal guarantees, and enterprises being unable to bear the burden of the yearly increasing numbers of (retired) pensioned staff*

*members and workers. This article makes certain policy recommendations aimed at correcting these problems.* [end note]

The economic efficiency of industrial enterprises refers to the ratio in industrial enterprise economic activity of labor expended and tied up to labor achievements that are in line with social demand. To more accurately and comprehensively assess the economic efficiency of our industrial enterprises, we have selected the 10 economic statistical indexes of net output value, fund-profit/tax rate, sales income-profit/tax rate, output value-profit/tax rate, realized profits and taxes per 100 yuan of wages, fixed product cost reduction rate, cost-profit/tax rate, overall labor productivity based on net output value, material and labor consumption, and scale and amount of losses as our key evaluation criteria. We have analyzed the economic efficiency of our state-owned but independently-accounted industrial enterprises since the Seventh Five-Year Plan (1986 through 1990 and the first six months of 1991), on which basis we have recommended corresponding countermeasures that should be taken.

#### I. An Understanding of the Current State of Economic Efficiency in State-Owned Industrial Enterprises

Since the Seventh Five-Year Plan, while China's state-owned industrial enterprises have increased in overall economic might rather quickly, their overall economic efficiency is still generally declining. During the Seventh Five-Year Plan, for the two categories of state-owned but independently accounted industrial enterprises and state-owned and -budgeted industrial enterprises, while the gross value of industrial output [GVIO] increased at average annual rates of 7.2 percent and 6.7 percent, respectively, and sales income increased at average annual rates of 14.5 percent and 14.1 percent, respectively, overall realized profits and taxes increased at average annual rates of only 2.4 percent and 0.3 percent, respectively. At the same time, fixed product costs shot up, while enterprise losses increased sharply in both scale and amount. For state-owned but independently accounted industrial enterprises, the five-year fixed product cost overrun rates were 7.34 percent, 7.03 percent, 15.59 percent, 22.17 percent, and 7.03 percent. For budgeted industrial enterprises, the five-year overrun rates were 7.4 percent, 6.7 percent, 15.5 percent, 23.4 percent, and 7.8 percent, for overspending averaging 53.6 billion yuan a year, and as high as 112.8 billion yuan in 1989.

The major cause of declining efficiency in state-owned industrial enterprises was that net output value increased less than production input while, in net output value, labor costs increased more than production growth. As to the change in net output value of state-owned industrial enterprises since 1985, fixed assets investments and circulating fund loans have both doubled and redoubled, while net output value growth has clearly been too low. During the Seventh Five-Year Plan, state-owned and budgeted industrial enterprises had a fixed assets original value of 979.33 billion yuan, or almost 400 billion

yuan more than the 587.17 billion yuan at the end of the Sixth Five-Year Plan, while realizing profits and taxes of 120.02 billion yuan in 1990, or only 1.2 billion yuan more than the 118.88 billion yuan in 1986. In 1990, state-owned and budgeted industrial enterprises received 87.2 billion yuan more in circulating fund loans, while their GVIO increased only 11 billion yuan, for a ratio of increased circulating funds to increased GVIO of 8:1. The net output value of state-owned industrial enterprises fell sharply from 1986 through the first quarter of 1991, dropping 32.23 percent, 31.64 percent, 30.79 percent, 29.14 percent, 28.39 percent, and 26.79 percent, respectively. As to labor cost changes in net output value, the enterprise outlay for wages and welfare increased too fast. For independently accounted industrial enterprises above the township level throughout China, payrolls included in costs increased from 59.1 billion yuan in 1985 to 131.3 billion yuan by 1990, while staff member and worker welfare funds included in costs increased from 5.7 billion yuan to 12 billion yuan. Excluding the impact of increased numbers of staff members and workers, the per capita wage and welfare fund index in the increased wage and welfare outlay rose about 84.3 percent, which undoubtedly reduced enterprise profits. During the Seventh Five-Year Plan, the realized profits and taxes of state-owned and budgeted industrial enterprises increased only 3.2 percent, while their staff member and worker payrolls increased 91 percent, which lowered their ratio of wages and welfare funds to profits and taxes from 1:3.08 at the beginning of the Seventh Five-Year Plan to 1:1.59 by 1990, and reduced their realized profits and taxes per 100 yuan of wages from 266.8 yuan in 1986 to 140.8 yuan by 1990, for a drop of 47.2 percent.

In the first half of 1991, while the declining trend in the key indicators of economic efficiency for state-owned and budgeted industrial enterprises slowed, 36.7 percent of enterprises still sustained losses, or 3.6 percent more than in the first half of 1990, with losses totaling 15.44 billion yuan, for an increase of 2.448 billion yuan and 18.8 percent. By region, the increased losses averaged over 100 million yuan each for the six provinces of Liaoning, Heilongjiang, Anhui, Hunan, Sichuan, and Shaanxi, for an increase totaling 953 million yuan, or 38.9 percent of the increased losses throughout China. By industry, losses were most severe in the coal, oil, light-industry, textile, machinery, and metallurgical industries, where losses totaled 11.46 billion yuan, or 74 percent of the losses of state-owned and budgeted industrial enterprises.

In analyzing the changes in the 10 key indicators of economic efficiency for state-owned industrial enterprises during the Seventh Five-Year Plan and the first half of 1991, we can see the following three clear features:

1. There were clear stages. The changes in the economic efficiency of industrial enterprises from 1986 to 1990 can be divided into two stages. In the first stage from 1986 to 1988, enterprise economic efficiency declined

only slightly. For instance, in state-owned but independently accounted industrial enterprises, the fund-profit/tax rate was 20.65 percent in 1986, 20.3 percent in 1987, and 20.63 percent in 1988 (the slight upturn being due to inflation). But in the second stage after 1989, the key indicators of enterprise economic efficiency dropped sharply. Continuing with state-owned but independently accounted industrial enterprises, the fund-profit/tax rate dropped to 17.18 percent in 1989, or 3.45 points lower than in 1988, and fell again to 12.43 percent in 1990, or 4.75 points lower than in 1989.

2. All key indicators of economic efficiency dropped sharply for all regions and industries. By region, except for some rise in some of the indicators of economic efficiency in industrial enterprises due to structural changes (mainly increased cigarette output) in the provinces and autonomous regions of Yunnan, Guizhou, and Xizang, all economic efficiency indicators fell in all of the other 27 provinces, municipalities, and autonomous regions. For instance, the fund-profit/tax rate from 1985 to 1990 fell 65 percent in Liaoning Province from 25.03 percent to 8.73 percent, 63 percent in Shanghai Municipality from 58.53 percent to 21.4 percent, 64 percent in Tianjin Municipality from 35.03 percent to 12.75 percent, and about 50 percent in provinces, such as Heilongjiang, Jilin, Hebei, and Shandong. By industry, except for rises in key economic efficiency indicators in industries, such as nonferrous metals and minerals mining, building materials, other nonmetallic metals and minerals mining, and other minerals extraction, economic efficiency indicators fell in all of the other 37 major industries. From 1985 to 1990, economic efficiency decreased from 50 percent to 70 percent in industries, such as oil refining, machinery, rubber products, food processing, feed, and pharmaceuticals.

3. The magnitude-of-value indicator reflecting material consumption rose year after year. From 1986 to 1990 in state-owned industrial enterprises, material consumption rates were 67.77 percent, 68.36 percent, 69.21 percent, 70.86 percent, and 71.61 percent, respectively, for an average increase of 1.05 percent a year (calculated according to the horizontal method). As material consumption rates rose, net output dropped correspondingly. If the 1990 material consumption rate for state-owned industrial enterprises could be returned to the 1985 level, we could create 60.9 billion yuan more value, or 40 percent of our overall profits.

Thus, we have determined that economic efficiency in state-owned industrial enterprises has been declining since 1986. If we took into consideration at least one-third of the existing hidden losses of state-owned industrial enterprises, the problem was even more severe. But it should be pointed out that when we say that economic efficiency has declined in state-owned industrial enterprises, this certainly does not exclude the improved efficiency of a few regions, industries, and enterprises.



## II. Factors Affecting the Economic Efficiency of State-Owned Industrial Enterprises

While it is a basic fact that our state-owned industrial enterprise economic efficiency has declined, which is a fact that all parties throughout society have reached a consensus on, opinions vary as to the factors involved in this efficiency decline. A more prevalent view in the evaluation of enterprise economic efficiency is that the poor economic efficiency of our state-owned industrial enterprises is due to too many profits being diverted to other sectors. Thus, we have analyzed the impact on enterprise economic efficiency of price changes, tax burden changes, interest rate adjustments, and special fund collections.

1. The impact of price changes: Statistics provided by the State Commodity Prices General Administration for state-owned and budgeted industrial enterprises during the Seventh Five-Year Plan show increased income of 354.88 billion yuan due to higher producer prices for products, and increased expenses of 305.116 billion yuan due to higher prices for raw materials, fuels, and power, or a net increased income of 49.764 billion yuan. Projected from the Ministry of Finance raw materials and fuels procurement price index from 1986 to 1990, the increased five year outlay due to raw materials and fuel price increases was 307.4 billion yuan while, projected from the manufactured goods producer price index for the same period, the increased five year income from higher product prices was 355 billion yuan, or a net increased five year income for industrial enterprises of 47.6 billion yuan. Data supplied by the State Statistical Bureau for the Seventh Five-Year Plan show that the impact of price changes was a net increased income of 45.5 billion yuan for state-owned industrial enterprises. Excluding the various statistical differences, these three verdicts are basically unanimous. Even though enterprises did not receive all of the advantages of manufactured goods price increases, some being diverted through circulation taxes, state-owned industrial enterprises at least did not generally have increased net expenditures due to price changes. Of course, the impact of price changes was uneven in different periods and for enterprises in various industries. As to the five major industries of coal, oil, metallurgy, textiles, and machinery, the first four had increased income due to price changes of 2.209 billion yuan, 2.406 billion yuan, 15.129 billion yuan, and 11.38 billion yuan, respectively, while the machinery industry had increased expenses due to price changes of 4.93 billion yuan. Income and expenditure increases also varied somewhat by year. For instance, state-owned and budgeted industrial enterprises had a net decreased income of 8.087 billion yuan in 1986, but net increased incomes of 9.544 billion yuan in 1987, 23.432 billion yuan in 1988, 20.3 billion yuan in 1989, and 4.575 billion yuan in 1990.

Since we began to reform, the price relations among China's five major sectors of industry, agriculture, construction, transportation, and commerce have undergone great changes. In order to find out whether the

industrial production sector diverted economic efficiency from agriculture during the Seventh Five-Year Plan, we have used the agricultural sideline product price index and the rural manufactured goods retail price index to derive the overall rate-of-exchange index between agricultural products and manufactured goods as 112.4 percent during the Sixth Five-Year Plan and 107.9 percent during the Seventh Five-Year Plan. This shows that the price scissors between manufactured goods and agricultural products were wider during the Seventh Five-Year Plan than during the Sixth Five-Year Plan. In other words, the amount of manufactured goods that could be acquired in exchange for the same amount of agricultural sideline products decreased, so that the industrial sector profited from price changes.

Generally speaking, price changes during the Seventh Five-Year Plan certainly did not directly reduce the economic efficiency of industrial enterprises.

2. The impact of tax burden changes: While the state did not raise tax rates during the Seventh Five-Year Plan, enterprise tax payment categories to the state (such as power and transportation funds and budget-balance funds) increased somewhat. During this period, the state made 126 tax collection policy adjustments, of which 109 were tax reductions. For instance, the light industry and nonferrous metals product taxes were changed to added-value taxes, four electronics goods were made tax exempt, and the textiles tax burden was lightened. The impact of these tax reductions in the years in which they were put into effect was an overall tax reduction of 30.854 billion yuan. At the same time, there were 17 tax increases, including the 11 new tax categories of real estate taxes, land use taxes, stamp taxes, motor vehicle and ship use taxes, education surtaxes, cultivation taxes, banquet taxes, income taxes for self-employed workers and businessmen, private enterprise income taxes, personal income regulation taxes, and special consumer taxes (the last four being unrelated to state-owned industrial enterprises). The impact of these tax increases in the years in which they were put into effect was an overall tax increase of 12.693 billion yuan (including an increase of 555 million yuan due to the new tax categories). This brought a net tax reduction of 18.161 billion yuan, correspondingly increasing enterprise profits by the same amount. In addition, budget-balance funds were increased 9.154 billion yuan in 1989. It should be pointed out here that budget-balance funds are deducted from realized profits, so do not affect calculations of enterprise economic efficiency.

While the amount of taxes paid by state-owned industrial enterprises during the Seventh Five-Year Plan increased quickly due to increased sales income, with year-year tax payments to the state of 63.02 billion yuan, 68.43 billion yuan, 78.52 billion yuan, 88.26 billion yuan, and 94.15 billion yuan, the enterprise burden decreased in relation to the industrial production growth rate and sales income increases. From 1986 to 1990, tax payments by state-owned but independently accounted industrial enterprises increased at an average rate of 5.8

percent a year, while their sales income increased at an average rate of 12.6 percent a year, so that their ratio of taxes to sales income dropped 4.1 points over these years from 17.6 percent in 1986 to 12.7 percent by 1990.

It is thus obvious that the policy of tax adjustment did not affect the overall economic efficiency of industrial enterprises. Our above calculations of economic efficiency added profits and taxes. Even though profits were turned into taxes, the policy of tax adjustment still did not affect overall efficiency.

3. The impact of interest rate adjustments: During the Seventh Five-Year Plan, the ratio of interest payments to production costs for budgeted industrial enterprises increased from 1.8 percent in 1986 to 3.4 percent by 1990, while the amount of interest payments increased from 7.93 billion yuan in 1986 to 30.09 billion yuan by 1990. Excluding expanded enterprise production and increased sales income that brought a normal growth of loans and additional interest payments of 13.64 billion yuan, the remaining 16.45 billion yuan was higher interest payments. Of these higher payments, 6.2 billion yuan, or 37.8 percent, was due to banks raising interest rates, while the remaining 10.25 billion yuan, or 62.2 percent, was caused by excessive bank loans. The ratio of these two types of higher interest payments to the overall costs and expenses of budgeted industrial enterprises (including the five categories of materials, wages, expenses, nonoperating expenditures, and interest payments) increased 11.1 percent, or 148 billion yuan.

In the 42 years since the founding of the PRC, China's bank loan interest rates have been adjusted nine times, including seven adjustments since we began to reform. In 1982, they were raised to 7.2 percent from 1971's 5.04 percent, bringing them back to their 1957 level, since which they have been adjusted six times, with the first three being increases and the last three reductions. Taking 1985's 7.92 percent loan interest rate as the base, and basing calculations on each year's annual circulating fund loan interest rate and the state-owned industrial year-end circulating loan fund balance, the raising of bank loan interest rates for state-owned but independently-accounted industrial enterprises brought their ratio of higher interest payments to all of their interest payments to 15.8 percent for the Seventh Five-Year Plan, including 20.7 percent for 1990.

The above shows that while interest rate adjustments have had a definite impact on enterprise efficiency since the Seventh Five-Year Plan, and excessive bank loans have added to the enterprise burden of interest payments, in comparison to the enterprise net outlay for materials, wages, expenses, and nonbusiness expenditures, the increased interest burden was not the major reason for the decline in enterprise economic efficiency.

4. The impact of special fund collections: Ministry of Finance statistics show that 16 central sectors have collected 27 categories of funds upon examination and approval since 1981. From 1985 to 1990, these

amounted to 131.5 billion yuan, including 11 categories by the central industrial sector, amounting to 90.653 billion yuan, or an average of 15.11 billion yuan a year, three categories by the communications and transportation sector, amounting to 22.924 billion yuan, 10 categories by the farming, forestry, and water conservancy sector, amounting to 1.61 billion yuan, one category by the culture and education sector, amounting to 15.4 billion yuan, and two categories by the commerce and trade sector, amounting to 400 million yuan. While most of these funds were collected from the public, with the industrial sector bearing part of the burden, most of them were used for technological upgrading and capital construction in the industrial sector.

These special fund collections came in many forms. As to those by the central industrial and transportation sectors, 82.6 percent were collected from beyond-value higher prices, 5.7 percent were deducted from costs, 4.2 percent were deducted from sales income, and 3.9 percent came from other sources. We have already analyzed the impact on enterprise costs from price increases caused by these fund collections in our above analysis of price changes.

These are generally regarded as the four major external factors in declining enterprise economic efficiency. Our analysis shows that while the first two of price and tax burden changes had no impact on enterprise economic efficiency, the last two of interest rate adjustments and special fund collections had a certain impact, but not a large one. We think that the crucial factor in evaluating the economic efficiency of industrial enterprises is the input-output ratio. How output should be broken down is a matter of national income distribution. The current crux of the problem is that state-owned industrial enterprise overall input and output do not match, in that net output value is increasing slower, while realized profits and taxes from net output value are growing slower than wages and welfare costs. The major reasons for this can be analyzed in detail from the perspective of factors within and external to enterprises.

#### A. Factors Within Enterprises

1. Enterprises lack a competitive development mindset. The operating ideas of many enterprises are still stuck in the product economy stage, which considers that enterprises are state-owned, so the state should guarantee them. This is expressed mainly as relying on banks for funds and on price increases for efficiency. For a long time, many state-owned industrial enterprises have paid very little attention to replenishing their own circulating funds in line with their production development needs and state stipulations, relying instead on operating in debt with bank loans. While state-owned industrial enterprises provided 40 percent of their own circulating funds in 1985, this had dropped to 22.5 percent by 1990. Meanwhile, localities and enterprises generally have made new fixed assets investments at an expanded scale, even using production funds to pay staff member and worker welfare costs and bonuses. In addition, many

enterprises have been unable to adapt to market changes, producing only a single color or design of product, "being accustomed to a single system" for many years, charging high prices for inferior quality, being unable to sell their products on the domestic market, and not being competitive abroad, so that inventories have increased, large amounts of money are tied up in overstocked finished products, and there is output value without efficiency. In the first half of 1991, the amount of funds tied up in finished products by state-owned and budgeted industrial enterprises continued to rise, reaching 130.6 billion yuan, or 16.5 percent more than in the first half of 1990, of which about 70 billion yuan was in new unsalable overstocked products from 1989 and 1990. Enterprise economic efficiency has relied to a great extent on the macroclimate of demand exceeding supply and product price increases. In recent years, the realized profits and taxes of many state-owned and budgeted industrial enterprises have fluctuated along with changes in supply and demand relations and price changes. As too brisk demand and inflation have been curbed, enterprise profitmaking capability has been correspondingly weakened.

2. Wage and welfare cost growth is arbitrarily "accommodating," while administrative costs are too high. As the policy of linking enterprise payrolls to economic efficiency is still imperfect, and practices, such as arbitrary "accommodation" and payrolls linked to profits but not losses, exist on a large scale, wages can only go up but not down. While the State Council stipulated that the ratio of taxes and profits paid to the state to wage increases for state-owned industrial enterprises was not to exceed 1:0.75, this ratio was actually 1:1.02 in 1986, 1:1.12 in 1987, 1:1.04 in 1988, 1:1.18 in 1989, and up to 1:3.54 by 1990. By the end of 1990, state-owned and -budgeted industrial enterprises had wage fund balances reaching 17.4 billion yuan. If raising wages one grade costs 14 yuan per worker, these surplus wage funds could not be used up even by raising wages three grades for all staff members and workers. This means that even linking enterprise payrolls to economic efficiency for some years to come with no further increase will still not affect long-range efficiency. As to enterprise administrative costs, the various expenses of state-owned and budgeted industrial enterprises increased at an average rate of 20.2 percent a year during the Seventh Five-Year Plan, reaching 174.2 billion yuan by 1990. In addition to too many bank loans and correspondingly increased interest payments, the major reasons for this were large increases in "other" expenses, such as travel expenses, conference costs, entertainment allowances, and advertising costs. By 1990, the outlay for the "other" category in production costs was 76.4 billion yuan, or double that of 1986, for an average increase of 19.6 percent a year and an increase of 3.8 billion yuan for 1990. By 1990, the outlay for shop expenses and business management costs had reached a high of 186.8 billion yuan, or 109 percent more than in 1986, including an 830 percent increase in entertainment allowances for domestic and foreign guests.

3. Business management is poor, while labor discipline is lax. Although China's business managers are generally of somewhat higher quality than they were a decade ago, a considerable number of them still neglect internal management, so that certain management methods with proven effectiveness in areas, such as business accounting and quota management, are still not being practiced persistently. Since the enterprise contract management responsibility system and the linking of payrolls to economic efficiency were put into effect on a large scale, they have had the negative impact of generally replacing management improvements with contracts and resulting in short-term actions, causing the prevalent phenomena of cost management being out of control and expenses being neither deducted or apportioned appropriately, and creating the glaring problem of falsely reported profits but actual and hidden losses. A survey by the Industrial and Commercial Bank of China (ICBOC) of 10,580 state-owned industrial enterprises found that by the end of June 1990, 6,625, or 63 percent, had hidden losses, or 1.96 times the number with book losses. The various types of off-book hidden losses that were uncovered, such as dishonestly entered items of expenditure, miscalculations, suspended accounts, and reported profits but actual losses, amounted to 10.83 billion yuan, or 1.72 times the book-losses of losing enterprises. These book and hidden losses of the surveyed enterprises totaled 17.12 billion yuan, or 56 percent of their realized profits and taxes for the first half of 1990. As this survey was conducted basically in key cities with concentrated industry and better management and administrative quality, the ICBOC noted that "since the current business management base is weaker in small and middle-sized cities, the problem may be even more glaring there." In addition, as the distribution gap between contractors and ordinary staff members and workers has widened in recent years in various industries and enterprises, equalitarianism has resurfaced within enterprises, and ideological and political indoctrination has weakened, the initiative of staff members and workers has been severely dampened. Plant managers widely report that their only currently effective method to arouse staff member and worker initiative is giving bonuses, which method is working at an increasingly higher cost. This is accompanied by lax labor discipline, with workers in many enterprises "refusing to either exert themselves or take time off and join the waiting-to-be-employed," putting on a show of enthusiasm without real effort, and having an effective man-hour rate of less than 50 percent.

4. Collectives are draining state-owned enterprises. Since we began to reform and open up to the outside world, almost all large and middle-sized state-owned industrial enterprises have set up a number of labor service companies and various types of collective enterprises, in order to resolve the problem of finding jobs for workers' children and livelihoods for surplus personnel. While these have helped to consolidate our stable and united political situation, they have also siphoned off everything from office sites, factory buildings, and equipment

to raw materials and funds from their state-owned "parent factories (mines, companies)" with some even taking planned, fixed-price products directly from their "parent factories (mines, companies)" and reselling them at negotiated prices, which drains profits from state-owned enterprises. For instance, the Beijing Minerals Bureau has 170 collective independent corporations, with 4,200 personnel and a minerals bureau fixed assets investment of 268.5 billion yuan. In addition to its collective companies and enterprises, it also has a number of technical and scientific associations that are half group and half collective, or half collective and half state-owned. The technological upgrading or even production duties of many of these enterprises are contracted under the name of the enterprise technical or scientific association, after which production tasks are shared out to production shops, and the money is paid out directly to the workers when the tasks are completed. We think that collectives draining state-owned enterprises has a greater impact on efficiency than the "three arbitraries," but that the problem is hard to expose simply because the diversion is internal, with "parent factories" sharing to a large extent in the profit distribution of their "offshoot factories."

#### B. Factors External to Enterprises

1. There are macroeconomic regulation and control problems. The unchecked and duplicate construction of several years ago has left much of the production capability of certain industries idle, which has directly affected the economic efficiency of whole industries. For instance, while we have as many as 167 color TV production lines, with a production capability of over 20 million sets a year, ranking us first in the world, our actual production volume in recent years has remained at around 10 million sets a year, or only about 50 percent of our production capability. The utilization rate of our production capability for household appliances, such as vacuum cleaners, refrigerators, and washing machines, is even lower than that for color TVs, being only 18 percent, 43 percent, and 39 percent, respectively, in 1990. While our oil refinery industry had a production capability of 144 million tons by the end of 1990, our crude output at the time was only 130 million tons, making our current utilization rate of production capability only 75 percent. We have too many automobile manufacturing and assembly plants that are too small and not of an economy of scale, so that our production capability utilization rate is less than 60 percent. Although our cotton spinning industry throughout the nation had almost 40 million spindles by the end of 1990, or 15 million more than enough to meet raw materials supply and textiles demand, only 44 percent of it was large and mid-size cotton mills with more than 50,000 spindles, while the cotton procured by all areas went first to guarantee the production of small local mills, which left large and mid-size state-owned cotton mills operating under capacity and repeatedly asking for emergency help. Almost all of China's high-profit and -tax products now have too much production capability,

with signs of another round of sharp increase in production capability just appearing for certain new hot-selling products, such as ethylene. With production and manufacturing capability far exceeding raw materials supply and market capacity, resource utilization cannot be optimized and, even though a few enterprises may be well managed, have dependable quality, market efficiently, and achieve impressive efficiency, efficiency still cannot improve for industries as wholes.

2. Old priority industries have long been overburdened with tax payments, so that they have not had enough money to replace equipment and upgrade technology. The large and middle-sized state-owned enterprises that were built in the 50's and 60's generally have outdated equipment, aging technology, single products, and poor efficiency. Since we began to reform and open up to the outside world, although the state has invested a large amount of money in upgrading technology and imported certain advanced equipment, a considerable part of this money has been spent on expansion and extension, while that used for upgrading technology has been too decentralized, so that a number of large and middle-sized enterprises still have "utterly inadequate" technology and equipment. These enterprises that have already been operating at full-load capacity for three or four decades are already in a stage of needing "complete overhauls" as far as personnel and equipment are concerned (with too many retired and pensioned staff members and workers and too much useless outdated equipment), with some finding it difficult to even maintain simple reproduction. For instance, the Beijing Electron Tube Factory, which was one of 156 key construction projects built in the First Five-Year Plan, has taken the lead in the 34 years since it was founded in developing and producing products, such as transistors, integrated circuits, and video display terminals, with many of its products and research achievements filling up national gaps or being foremost throughout the country. While it has produced complete sets of high-quality electronic devices for more than 180 key state projects in the "two-shell, one-bit" program, and paid the state profits and taxes amounting to 1.17 billion yuan, or more than four times its original fixed assets value, many years of too little input, which has made it impossible for it to upgrade its key technology, have left it with steadily declining economic efficiency. Since 1985, it has gone from earning profits of tens of millions of yuan a year to successive years of sustaining losses, which finally landed it in the difficult position of its assets being less than its liabilities. It lost 9.923 million yuan in 1990 and 6.623 million yuan in the first quarter of 1991, leaving it with a debt (the sum of all of its loans) of 247.6 million yuan, or 57 percent more than the net value of its fixed assets. Similar conditions generally prevail in all of the large and middle-sized state-owned industrial enterprises that were built in the 50's and 60's.

3. Proper enterprise rights and interests lack legal guarantees as follows:

A. The relations between government administration and enterprise management are not smooth. The

government administration sector interferes too much in enterprise production operations, by both not dealing with or handling poorly many things that it should administer, such as ensuring that policies achieve the desired results, eliminating the defect of "the substitution of contracting for better management," and using administrative, economic, and legal means to drastically adjust industrial structures, as well as overmanaging things that it should not, such as conducting all sorts of inspections and comparative appraisals, and requiring enterprises to establish counterpart organs and personnel deployments from top to bottom, which interferes with the normal production operations of enterprises, deprives them of their proper decisionmaking authority, and hampers their independent management initiative.

B. The persisting "triangular debt" and poorly enforced accounts settlement discipline, which even causes the strange phenomenon of "it being both profitable and rational to have outstanding accounts," have a direct impact on the economic efficiency of law-abiding enterprises.

C. The disastrous "three arbitraries" interferes with the normal production and operation of enterprises. Surveys show that enterprise social burdens were over twice as great in 1989 as in 1985, of which local government apportionment and fundraising accounted for about 60 percent, departmental apportionment, fees, and fines accounted for about 35 percent, and a great variety of social group fee collections and support payments accounted for about 5 percent. Sampling and projection show that the state-owned industrial enterprise outlay for "the three arbitraries" takes away about 2-3 percent of their retained profits. While this may not be a large amount, it still interferes with the normal production and operation of enterprises.

D. The yearly increasing numbers of retired and pensioned staff members and workers are increasing enterprise burdens. Estimated data provided by the Ministry of Labor shows that China's state-owned industrial enterprises had 8.7375 million retired and pensioned staff members and workers in 1985, which figures were 9.7725 million, 10.68 million, 11.58 million, 12.2175 million, and 12.93 million, respectively, for 1986 to 1990, with labor insurance welfare costs for retired and pensioned staff members and workers being 8.7075 billion yuan in 1985, and 10.313 billion yuan, 12.615 billion yuan, 16.17 billion yuan, 18.96 billion yuan, and 28.68 billion yuan, respectively, for 1986 to 1990. This made the 1990 labor insurance welfare cost for retired and pensioned staff members and workers 3.3 times what it was in 1985. This doubling and redoubling of labor insurance welfare costs has sharply increased enterprises burdens and had a direct impact on enterprise economic efficiency.

Our industrial production and sales began to improve in 1991. But while the GVIO of state-owned and -budgeted

industrial enterprises for the first half was 9.9 percent higher in 1991 than in 1990, and sales income was up 14.5 percent, realized profits and taxes were up only 6 percent. Although this included a monthly shrinking of the decline in realized profits from the 34.6 percent at the beginning of 1991, profits were still 17.5 percent lower than in the first half of 1990, while losing enterprises increased from 31 percent at the end of 1990 to 36.7 percent by the end of the first half of 1991, and losses grew 18.8 percent. Why were these increases in industrial production and sales not accompanied by higher economic efficiency? This was for the following three reasons:

A. While our industrial output increased somewhat in 1991, and our market sales increased correspondingly, enterprise finished product costs were up four percent over 1990 (having increased seven percent in 1990), while sales did not increase. Certain localities report that roughly 60-70 percent of the commodities sold in the first quarter of 1991 were finished product holdovers from 1990. This caused earned profits to continue to drop and losses to rise.

B. Many enterprises had previously hidden losses, which showed up after the new round of contracts began. To meet contract targets and stabilize conditions in 1990, certain localities and enterprises had dealt with losses exceeding planned control targets as "hung accounts," which increased hidden losses. After the new round of contracts began and the new contractors were unwilling to shoulder this burden, the problems began to show up one after another.

C. Some enterprises were anxious to sell off overstocked products, even selling them below cost, which caused overstocked "finished products" to become losses when they were sold. This meant that even though sales volume increased and overstocking was alleviated, economic efficiency did not improve correspondingly.

### III. Steps That Should Be Taken

Invigorating large and middle-sized state-owned industrial enterprises, and improving enterprise economic efficiency, will require in the final analysis that enterprises focus their efforts on improving their management and administration, upgrading their technology better, and striving to progress and advance in a planned commodity economy environment, while the government devotes its energy to creating a good operating climate for them.

#### A. Basic Steps

Based on the directions and tasks in our 10-year program on deepening economic reform, in line with our analysis of the current state of our large and middle-sized state-owned enterprises, and derived from our basic reform experience and lessons learned in the last 13 years, converting the operating forces of state-owned enterprises should become China's key policy direction to



invigorate our large and middle-sized state-owned enterprises. As enterprise operating forces are invariably interlinked with social and economic development progress, the conversion of our state-owned enterprise operating forces must be suited not only to our shift toward a socialist planned commodity economy, but also to the technological and economic characteristics and development levels of various industries and types of enterprises. In short, the conversion of our state-owned enterprise operating forces should be focused on rationalizing property rights relations, appropriately separating the functions of government administration from enterprise management and ownership from operating authority, becoming oriented toward both foreign and domestic markets, improving industrial management, standardizing the distribution relations between the state and enterprises, and enhancing enterprise management initiative, responsibility for both profits and losses, and self-development and -restraint forces.

1. *We should establish an independent state property administration system.* Separating the government's administrative function from its state property ownership function is the basis for clarifying property rights relations and property dominance functions, as well as for separating government administration from enterprise management. All departments and regions, from central to local, have now already established state property administration departments which, based on sorting out and demarcating state property rights, should divide up and entrust state property to state property administration departments at all levels. These state property administration departments at all levels should specially administer the state property ownership function on behalf of the state (as to development, they could also be given some investment operation functions), ensure the rights and interests of state property, and aim at proliferating and making assets profitable. Property administration departments at all levels should divide up the state property under their jurisdiction and entrust it to a number of competitive property management companies (such as investment management companies, financial corporations, and stock-control corporations), which would be responsible for specific investment management activities. State property administration departments or commissioned property management companies should appoint property (stock) rights representatives to take part in formulating enterprise development scale and making key management decisions. While clarifying property rights, this would convert the current usually direct management of enterprise production operations by government administration departments to the function of indirect regulation and control of enterprise production operations, and lead to the government administering all industries through formulating policy laws and regulations, relying on economic regulation leverage, and being oriented toward the enterprises of various types of ownership throughout society.

2. *We should reform our form of enterprise organization.* While a few large key enterprises, which are of a public

welfare type, nonbusiness oriented, and of vital importance to the national economy and the people's livelihood, should be directly operated by the state based on the establishment of a strict goal responsibility system, and most small state-owned enterprises should practice leased management, most large and middle-sized state-owned enterprises (mainly competitive ones) should, based on rationalized property rights relations, be adapted to the needs of production development, by being reorganized into limited liability companies with mostly state corporate investment or limited shareholding companies with mostly state corporate stockholding. We should follow the principle of safety in reorganizing enterprises into limited shareholding companies, by first reorganizing them into limited liability companies. Shareholding is a form of enterprise organization that has evolved to adapt to socialized large-scale production, which certainly does not have any particular class nature per se. Just as in the form of organization of state-owned enterprises, the enterprises that are directly operated by capitalist countries are nothing more than private capital adopting a socialized form of realization, so that "state-owned" per se is not a synonym for a state-owned economy. As the class nature of the form of enterprise organization is a product of the production relations hidden behind it, the adoption of the shareholding form of enterprise organization by a socialist country will not only not change the nature of its state-owned economy, but might even promote its development. In addition to performing the functions of absorbing idle capital, promoting a rational circulation of assets, and breaking free from the local and departmental ownership structure, these reorganized limited shareholding companies with mostly state corporate investment (stockholding) will also play the following key roles in converting enterprise operating forces: A. Investor-appointed property rights representatives on enterprise boards of directors can enhance enterprise capital restraint forces. B. The general manager responsibility system under the leadership of boards of directors that enterprises will correspondingly practice, will properly separate ownership from management, which could speed up the formation of independent operating forces. C. The clarification of enterprise property rights relations and legal standings can lay the foundation for the formation of elimination-through-competition forces.

3. *We should reform the distribution relations between the state and enterprises.* Our two-step substitution of taxes for profits has blurred the distinction between the state's dual status as public administrator and property administrator, caused new problems in separating taxes from profits, weakened taxation enforcement and the tax revenue mandate, and made it hard to standardize the distribution relations between the state and enterprises. The separation of profits from taxes is actually a rationalization and standardization of the profit distribution relations between the state and enterprises based on an accurate assessment of state property. The state should act in its capacity as public administrator by collecting

various taxes from enterprises, and in its capacity as property administrator by taking part in enterprise after (income) tax profit distribution. Based on the principle of fair tax burdens, it should apply a uniform tax rate for enterprises of various forms of ownership, and eliminate regulatory taxes. Aftertax profit distribution should be determined through consultation by boards of directors under the leadership of the relevant state property administration departments and the concerned non-state-property property rights representatives. Company aftertax profits should be shared among all investors (including the state property investors of state property administration departments at all levels and their subordinate property management companies).

4. *We should reform our enterprise financial system.* Our current enterprise financial system contains the serious defect of not truly reflecting actual enterprise assets and costs, which is one of the key causes of the striving for assets-holding maximization, the ignoring of assets-multiplication capability, and the eating up of state property principal. As the essence of financial accounting should be to keep authentic records of funds in time and space, the crux of accounting reform should be to adapt to rational property rights relations, by establishing fund profit-margin assessment headings and asset-liability charts, which will truly reflect enterprise holdings of state property and their liability scale, structure, and repayment capability. This crucial reform will involve taking the following specific steps: A. State property administration departments should take charge of drawing up a state-owned enterprise financial accounting system that will dovetail property rights administration with enterprise management. B. Enterprise professional financial accountants should be hired and fired directly by the organs that represent property rights and interests (boards of directors), in order to prevent arbitrary hiring and firing by managers. C. The factors that should be included in costs (such as wage expenditures and investment loan interest) must be included in costs, in order to accurately assess enterprise operations. D. Enterprise depreciation funds should be raised to a rational level, and a depreciation accounting system based on a reevaluation of assets must be established. E. The actual input of funds should be used to calculate the fixed assets of new enterprises, with no cancellation after verification of any expenditures.

5. *While converting enterprise operating forces, we must reform the external climate for enterprises as follows:*

—We must establish a socialist market system that is uniformly open, practices fair competition, and has sound rules and regulations. We should deregulate most commodity prices, and eliminate the directive production plans for most commodities. For the few key commodities that are of vital importance to the national economy and the people's livelihood, we should exercise state planning that sets sites and quantities but not prices, or have materials and commercial departments order goods from enterprises. While commodity markets are being fully developed, we should take active steps to

develop key markets, such as money, technology, information, labor, and real estate.

—We should improve our industrial policy and technology and equipment policy, by establishing economic regulation levers, such as taxation, differential interest rates, and discount loans. Based on this, enterprise economic activities, such as production operations, ordinary technological upgrading, and construction, should be mostly market regulated. As to large-scale capital construction and enterprise technological upgrading projects, we must streamline examination and approval procedures, and set examination and approval jurisdictions in our industrial policy that vary by industry.

—Based on dividing up central and local administrative authority, we should put into effect a state revenue tax sharing system divided into central and local tax categories. We should establish double-entry budgeting for both the central level and also for provinces, autonomous regions, and municipalities, by separating running budgets from construction budgets, to keep them from squeezing each other out. We should strengthen our revenue budget restraints, by keeping our running budgets out of the red and striving for some surplus. In addition to using tax surpluses and state property profits for construction budgets, we can also use domestic and foreign debt, but the amounts must be appropriate, and we must maintain a rational debt structure.

—We must establish social insurance systems, such as old age insurance, unemployment insurance, health insurance, and housing insurance, in which the costs are rationally shared by the state, enterprises, and individuals, and which are uniform for enterprises of all types of ownership throughout society. Unless we establish and improve our social insurance systems, it will be hard for enterprises to evolve elimination-through-competition forces, and adjustment of our industrial structure will be severely limited.

—We must enhance our economic legal institutions, laws, and regulations. Developing economic legal institutions is the basis for standardizing economic activity, the key way to standardize the economic relations between enterprises and the state, enterprises and their staff members and workers, enterprises and other enterprises, and enterprises and other social groups or individuals, and a forceful guarantee of the normal functioning of enterprise operating forces. While conscientiously implementing and strictly enforcing according to law our existing laws and regulations, we must pay close attention to drawing up other legislation, such as a "Planning Law," a "Budget Law," an "Investment Law," a "Corporation Law," a "Pricing Law," a "Stock Exchange Law," a "Labor Law," a "Wage Law," a "Social Insurance Law," and a "State Property Administration Law."

## B. Steps That Must Be Taken Immediately

1. As to industries or products that have or will become overheated, we must strictly control and rationally guide

assets proliferation, rationalizing it to prevent too similar industrial structures and investment waste. Of course, we must pay particular attention to strictly controlling overall extrabudgetary fund investment, by rationally guiding its orientation to further optimize industrial structure and product mix.

2. We must take full advantage of the the current favorable opportunity of a buyers market, by determining to adjust our capital reserve structure to achieve a rational disposition of key production factors. As to enterprises that have no hope of reversing their losses, we must either persist in all-out reorganization, merge them with more efficient enterprises, or allow them to shut down and go bankrupt. As to staff members and workers in enterprises that are closed down, suspended in operation, merged, or switched to manufacture of other products, we should either train them for new jobs, transfer them to merged enterprises, or put them to work in tertiary industries. In short, unless we are firmly determined to close down, suspend operation, merge, or switch to manufacture of other products a number of inefficient enterprises, we will be unable to invigorate efficient ones and, unless we develop a proper labor unemployment system, it will be very hard to clearly improve our labor productivity.

3. We must adjust our product mix to adapt it to market demand, by developing new products. We must control production of industrial products that are in long supply, particularly manufactured goods, while increasing production of marketable products. In particular, we must develop new products that can spur consumer goods markets, instead of taking only immediate, short-term actions. The key to developing rural consumer goods markets will be to focus on the consumer needs of our 900 million peasants, instead of simply pushing overstocked products from the cities onto the rural areas.

4. As to distribution within enterprises, we must improve our current policy of "linking payrolls to economic efficiency." On one hand, we must strictly enforce current provisions, by ensuring that payrolls grow both rationally and steadily, as well as less than national income. On the other, the government must generally stop interfering in distribution within enterprises, by no longer linking enterprise wages to enterprise and institutional wage adjustments.

5. We must further improve state evaluation criteria for localities, industries, and enterprises, by putting economic efficiency indicators in a prominent position. In future evaluations of enterprise economic efficiency and local government achievements, we must gradually de-emphasize the output value indicator, by studying and drawing up as quickly as possible a set of economic efficiency indicators that can accurately evaluate the economic efficiency of local governments, responsible industrial departments, and enterprises. Moreover, we must further implement the investment responsibility system. Governments at all levels in charge of capital construction investment must provide feasibility proofs

in advance, and the departments responsible for examining and approving capital construction projects must accept the legal responsibility for mistakes they make in approving projects.

6. We must endeavor to improve management within enterprises, by emphasizing the following: A. We must enhance basic enterprise management, by carrying out comprehensive business accounting. B. We must use management ways and means, such as overall quality control, market survey and projection, value engineering, and business marketing techniques to improve enterprise management. C. We must reinforce enterprise technological upgrading, by demanding efficiency from technological advances. D. We must enhance financial oversight, through strictly curbing arbitrary cost and expense apportionment by enterprises, and by investigating and affixing the administrative and legal responsibility of those responsible for violations of financial and economic discipline.

7. We must strengthen our ideological and political indoctrination within enterprises, through mobilizing all positive elements to act as the masters of their own affairs, by launching "dual-increase and dual-conservation" activities. We must emphasize the following priorities: A. We must bring the initiative and creativity of enterprise staff members and workers into full play, by transforming their dependence on "waiting, depending, and demanding" to a reliance on their own efforts in running enterprises well. B. We must improve incentive forces, by implementing the policy of distribution according to work, and resolving unfair distribution conflicts within enterprises. C. Enterprise managers and administrators must have the courage and insight to develop, pioneer, unite, and act realistically, and must shoulder the historic responsibility of making further contributions to the prosperity of the nation and the happiness of the people throughout China.

#### **JINGJI RIBAO on Market Economy**

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["Excerpts" of frontpage article by Chen Jinyu (7115 6651 3768) and Zhong Pengrong (6988 2590 2837) in the 11 July edition of JINGJI RIBAO: "Market Economy Should Also Be Practiced Under Socialism"]

[Text] Beijing, 11 Jul (XINHUA)—Should a market economy be practiced under socialism, and how can a market economy be practiced on the basis of public ownership? This question stands out as we earnestly study and implement the guidelines of Comrade Deng Xiaoping's speeches made during his tour of the south and as the new situation of reform and opening up develops both in depth and width.

**Failure To Practice Market Economy Means Resting Content With Backwardness**

Since the early 1990s, as drastic changes took place in the political situation in the Soviet Union and in certain East European countries, socialism encountered serious setbacks, especially the rapid dissolution of the world's first socialist country—the Soviet Union. True, the reasons for such a historical tragedy are manifold. Nevertheless, we should say that one of the fundamental reasons lies in the highly centralized rigid economic planning system which fettered the development of productive forces and failed to provide the people the better life they deserve, thereby forfeiting confidence in socialism among a considerable segment of the population.

Contrary to the above-mentioned situation, socialist China has been full of vigor and vitality since the early 1980s. Industrial and agricultural production is thriving; there is a large variety of commodity supply; and the people's livelihood has been markedly improved. China's political situation as a whole has remained stable for more than a decade. Even in the face of political turmoil during the spring and summer of 1989, and of the strong impact of changes in the international situation, China has resisted pressure from various sources and has achieved advances under a stable environment. The reasons for such a historical situation are, of course, also manifold. But we should say that one of the fundamental reasons lies in our bold reform. The induction of market mechanisms into our highly concentrated rigid economic planning system has invigorated the economy, boosted our national strength, raised the living standards of the people, and increased their confidence in socialism.

As a result of the structural reform in planning, pricing, finance, banking, foreign trade, and enterprise management in recent years, market regulation has played a fairly important role in the national economy, and even a dominant role in some sectors.

Remarkable successes have been achieved in China's rural reform. Would there be such a prosperous situation—as it is today—of the commodity economy in rural areas if there had not been granted decision making powers in management to peasants through the household contract system linking remuneration to output, decentralization in the circulation of some farm and subsidiary products, and their transportation by peasants for sale over long distances?

Village and township enterprises are a new force suddenly coming to the front of the national economic development. It is precisely because of the raw and semi-finished material market, the self-operated market for finished products, the money market, the labor service market, the technology market, and the information market—all of which have emerged in economic structural reform—that village and township enterprises have found their means of production and mushroomed like "the grass which, even though destroyed after a prairie fire, grows again when the spring breeze blows." In this way, village and township enterprises can find

solutions to their problems not from mayors and county magistrates but from the markets.

The construction of the special economic zones has proceeded at an amazing speed. It is very important that the state has implemented a special policy toward them. The "special" policy simply refers to giving the reins to market mechanisms and to delegating power to allow the special economic zones to accumulate funds, import technology, manage enterprises, and recruit staff and workers according to international norms.

History has clearly testified that rejecting a market economy under socialism means resting content with backwardness, and can lead to setbacks or even dissolution; if a market economy is also practiced under socialism, it will not remain backward, and can extricate itself from difficulties and develop and strengthen itself. On this question of life and death, whoever promptly wakes up to reality and does a good job can achieve self-development and self-strengthening, and becomes invincible.

#### **The Approach We Must Take To Deepen Reform and Broaden the Scope of Opening Up**

Strictly speaking, it currently is not whether or not we should promote a market economy in China, but rather it is how to further improve and develop a market economy on the basis of the market economy we have established—the problem is whether we should stop at this stage, retreat, or keep going.

Stopping at this stage or retreating will lead us nowhere. If we return to the previous highly-centralized planned economy, it will be bound to fundamentally disrupt the normal functioning of our social and economic life, will meet opposition from the majority of people in urban and rural areas, and will bring about a serious weakening of the productive forces and major social turbulences.

We should realize that a series of major economic difficulties in the country remains to be solved. All of these difficulties has something to do with the fact that our economy has not been totally freed from the highly-centralized planned economic model, and that our market economy has not been fully developed.

Currently, one-third of our state-run enterprises are publicly running at a loss, and another third are losing money in other ways. In the last few years, governments at all levels have made strenuous efforts to improve the profitability of state-run enterprises, and results have been achieved. But their efforts have not yielded noticeable results. At the same time, town and village enterprises have performed very well. If both state-run enterprises and town and village enterprises are publicly owned, why has there been such a difference? The root cause is that the hands of state-run enterprises are tied—their major economic activities are still directly controlled by administrative departments at various

levels. Therefore the key to invigorating state-run enterprises is not to give them various preferential treatment, but to further loosen the ties and to make them more market-oriented.

Too many similar processing industries have been established in the country, despite repeated efforts to ban the establishment of new ones, and various difficulties have been met in restructuring the processing industry, resulting in tremendous social waste. The root cause of this is that a reasonable price system decided by a market mechanism has not been established in the country; therefore, to a large extent the decision to invest in and provide funds to enterprises is still affected by the decision-makers' will. To solve this problem we should not solely depend on the government's repeated injunctions; instead we should make investment activities more market-guided, letting the market mechanism transfer limited investment funds to economic sectors in need of resources and to projects with good economic efficiency. The double-track price system is a hotbed for breeding corruption; this fact has been realized by an increasing number of people. To withdraw the one track that has been liberalized and merge it with the planned track will of course eliminate price differences resulting from the double-track price system. However, returning to the past method can only lead the country's economy to a dead end. To wipe out the hotbed for corruption, we must liberalize the one track that is still under the government's direct control and merge it with the other track in the market economy.

In many rural areas, difficulties in selling grain still have not been solved, seriously dampening the peasants' morale for growing grain. One of the most important causes of this problem is that state-run grain stores monopolize the dealing of grain, impeding the development of the grain market. To solve this problem we must lift control over the circulation of grain as well as other agricultural and sideline products.

It has long been a problem that we have not been able to improve the quality of our products and to reduce their cost. Following the broadening of the scope of opening up—especially following the restoration of China's GATT membership—Chinese enterprises will face increasing pressure from international competition. If we continue to tie the hands of our enterprises, how can we expect them to win in international competition in the future? Only by developing the market economy, which will enable enterprises to enhance their competitiveness, can we maintain our position in the domestic market and enter the international market.

Many problems exist in our economic life—people not being fully motivated is the most important of these problems. How do we solve this problem? The most effective way is to develop a market economy—let laborers enter enterprises through the market and let enterprises hire people through the market, thereby enabling everyone to get a job that can give him or her the opportunity to fully make use of his or her potentials,

and that can reward him or her with higher pay, and that enables enterprises to find people who can achieve the best economic efficiency for their enterprises.

In short, to thoroughly free our economy from the current predicament, and to enable reform and opening up to continue, we should unhesitatingly make the decision to develop the socialist market economy in China by taking a series of major reform measures, including simplifying administrative procedures and delegating more power to lower levels.

### A Major Development in Scientific Socialist Theory

Since the Third Plenary Session of the 11th CPC Central Committee, our party has gone through a process of practice, understanding, repractice, and reunderstanding while straightening out the relationships between planning and the market. First we adopted a policy based basically on a planned economy and using market regulation as an auxiliary means; later we practiced a planned commodity economy, holding that the function of planning and the market should affect all of society; and then pursued an economy that combines a planned economy with market regulation, as well as an economy that combines a planned economy with a market economy. This process indicates the deepening of the people's understanding of the role of a market economy. In this process, the man who spoke first and spoke most clearly about practicing a market economy under socialist conditions was Comrade Deng Xiaoping.

As early as November 1979 at a meeting with (Gibney), deputy chief editor of the U.S. *Encyclopedia Britannica*, Deng Xiaoping, the general architect of China's reform and opening up, said: The allegation that a market economy is limited to a market economy of a capitalist society and of capitalism is definitely incorrect. Why can't a market economy be practiced in socialist countries? A market economy began to spring up in feudal society; a market economy can also be practiced in socialist countries. He also said that the method of the socialist market economy is basically similar to the capitalist one, although there are differences. On several occasions after that meeting, Comrade Xiaoping discussed the relationships between planning and the market, stressing the need to attach importance to and make use of a market economy. Comrade Xiaoping's discussions have broken the traditional idea of regarding planning and the market as a criterion for differentiating the nature and attributes of socialism from those of capitalism, further emancipating the minds of the vast number of cadres and masses, and enriching and further developing the theory for building socialism with Chinese characteristics.

Under the socialist conditions in China, a combination of planning and the market cannot simply be interpreted as which comes first and which comes second, nor can it be regarded as piecing together a tangram [a Chinese puzzle]. All kinds of commodities—whether they are means of production or goods for consumption, whether



they are products or production elements—should be transacted through the market. Our market should be one that is macroeconomically regulated and controlled by the state through exercising economic leverage and through using legal means and other noneconomic means. We may call this a planned market. This organic combination of planning and the market is a market economy based on the system of public ownership. In this planned market economic system, the main functions of the government and its planning are: Regulating the price level and economic growth rate through controlling the total monetary supply and total financial revenues and expenditures; regulating the regional and industrial distributions of major production capabilities through implementing industrial policies and conducting major investment activities such as pooling financial, manpower, and material resources to harness rivers, building large nuclear power plants, and tackling high and new-technology problems; maintaining normal market order through establishing and implementing market planning; regulating income gaps between enterprises and individuals by levying income taxes and regulatory taxes, and by taking other taxation measures; and providing guidance for and ensuring a healthy development of the national economy through exercising direct control of a few numbers of monopoly industries. Beside these, all other microeconomic activities should be regulated by the market mechanism. The government should not directly intervene in these activities.

Developing a market economy is an indispensable stage in the history of developing a socialist economy. This is even more so in China. The reasons for this are:

1. Because we are building socialism under the conditions of an undeveloped commodity economy as well as economic and cultural backwardness, our fundamental task should always be vigorously expanding the productive forces. Market mechanisms—like “an invisible hand”—play an irreplaceable role in rationally distributing resources for forming the optimal combination of various production elements; for avoiding and reducing waste, and for continuously raising economic efficiency. Through changes in supply and demand relations and price fluctuations, markets guide production and consumption, regulate the flow of social resources, and allocate the limited resources to where they are most needed, as well as to the most efficient enterprises.

2. China is in the primary stage of socialism in which various economic sectors exist, but public ownership is the dominant force. Exchanges between enterprises should be conducted according to the principle of exchange for equal value. This practice has proved that in relying on state planning for fixed prices and periodic price readjustment alone, it is very difficult to effect exchanges for equal value. To do so it is also necessary to rely on market mechanisms.

3. Throughout the historical stage of socialism, labor is the primary means for people to making a living, while seeking personal material interests is the force propelling

people to engage in production and management. The distribution of laborers' personal material interests in society must and can only follow the principle of exchange for equal value of labor. However, exchange for equal value of labor must be conducted according to the measure of society's need for labor, which is formulated in markets and reflected in prices.

4. Socialist production aims to satisfy the needs of all members of society. Such needs differ in thousands of ways and change constantly. It is simply ineffective and impossible to apply administrative means and mandatory plans to timely and accurately collect information pertaining to such needs for guiding production and circulation. To do so, it is imperative to rely on the markets as highly sensitive antennae capable of reaching every corner of the country.

5. In carrying out socialist modernization construction, China must open itself up to the outside world. In opening up to the outside world, it is necessary to link domestic and international markets. Only when we establish a complete and nationally unified large market linked with the international market will economic activities with foreign countries proceed smoothly and efficiently.

#### **Emancipate the Mind and Dispel Misgivings in the Course of Practice**

Will practicing a market economy weaken and negate the dominant position of public ownership of the means of production? This is one of the main misgivings people have toward developing a market economy. We must point out, first and foremost, that the market, as a means for distributing resources, can be integrated with the public as well as with public ownership. Undeniably, under the traditional system of state ownership, enterprises are merely appendices of administrative organs which have neither autonomy in management nor responsibility for profit and loss; the law of value cannot be brought into play and a market economy cannot be practiced. Nevertheless, our realized form of public ownership has been and will be reformed further. Reforming the accepted form of public ownership will neither weaken nor negate the dominant position of public ownership. For example, the implementation in rural areas of the household contract responsibility system with remuneration linked to output; the development of village and township enterprises; and experimentation with the stock-sharing system in selected cities have all created the conditions for developing market economy while consolidating and strengthening the dominant position of public ownership. Of course we should further explore ways for realizing public ownership, especially ways for reforming state ownership.

Will practicing a market economy cause economic confusion? Undeniably there exists a certain kind of blindness in developing a market economy, but human society has already accumulated quite a few effective cures for such blindness. The totally aimless and laissez-faire

market economy, which existed in its early stage, has been discarded in the world today, even in capitalist countries. In developing a market economy in a socialist country, we naturally should strengthen the state's overall control and guidance through planning. So long as we correctly control the scope and intensity of overall control—and apply certain economic levels to modify, weaken the spontaneity, and limit the native effects of market mechanisms—we can avoid the anarchy and periodic upheavals brought about by a market economy under the system of private ownership.

Will a market economy lead to polarization? Generally in a market economy a worker's contributions are assessed mainly by the market, and his income is regulated mainly by the market. Therefore some people will become prosperous quickly and others less so. Such income differences based on differences in work are in keeping with the socialist principle of distribution according to work. However, some people will become millionaires overnight not because of their labor input or exceptional management skills, but because of good luck in their business activities—such as stock price rises. Income differences like this, which have nothing to do with one's personal contribution, is the price we must pay to achieve our goal of raising the nation's overall income level and of bringing common prosperity to the entire nation. Moreover, the government can use income, regulation, inheritance, and other taxes to regulate the income levels of high-income brackets. Even more harsh measures may be taken to bring under control incomes that are unreasonably high.

Will a market economy lead to inflation? It should first be pointed out that a market economy does not equal inflation. For example, prices have remained stable over long periods in Japan and the United States—developed capitalist nations where market economies are practiced. Currently, due to the excessive amount of currency in circulation, the overall price levels may rise as China undergoes transition to a market economy. We must have a sober understanding and must take a prudent approach in this regard. If we stabilize the amount of currency deposits before and during the deregulation of prices—using measures such as inflation-proof savings deposits—and if we exercise strict control over the release of additional currency and the total amount of money in circulation, as well as take other steps designed to stabilize the currency and set the people's minds at rest, then we will be able to bring inflation down during the transition period and will prevent spiralling increases in overall price level. As for the negative impact inflation might have on the residents, the government will implement steps to ensure that the actual living standards of the majority will not fall. This is an unshakable basic stand of our party and government.

In developing a market economy and implementing reforms in employment, wages, medical services, housing, and other sectors, we must pay attention to safeguarding and guaranteeing the people's interests, to

improving the various social security schemes, and to stepping up construction of public welfare facilities.

Developing a market economy on the basis of socialist public ownership is an unprecedented undertaking. With all the successful explorations over the past decade or so, generally speaking we still lack experience. The most important thing now is practice. Only through practice will we be able to acquire a deep understanding of all the characteristics of a market economy based on public ownership. Only through practice will we be able to have an accurate grasp of the respective dimensions and strengths of state macro-control and the market mechanism. Only through practice will we be able to conscientiously utilize the strengths of public ownership to overcome the side effects that may result from spontaneous regulation by the market. Only through practice will we be able to gradually expel the misgivings people might have about a market economy, emancipate our minds, explore in a bold manner, and constantly enhance our confidence in building socialism with Chinese characteristics.

## PROVINCIAL

### Experts on Hubei's Economic Reform, Opening Up

92CE0581A Wuchang JIANGHAN LUNTAN  
in Chinese No 5, 15 May 92 pp 31-35

[Article by Gong Yiming (7895 4135 7686): "Thoughts on the Background of the Great Challenges Facing Hubei's Economy"]

[Text] The concerned experts and academics from the "three institutes and one department" of the Hubei Academy of Social Sciences that are engaged in economic studies, recently held a theoretical forum on the crucial issue of how Hubei can improve its reform and opening up. Taking advantage of the new springtime atmosphere of reform and opening up, these scholars spoke out freely. We have summed up here the major views that were presented at this forum.

### I. Hubei's Grim Situation of Greater Challenges Than Opportunities

The scholars who participated in the forum unanimously remarked that a realistic assessment of the situation is that another great wave of reform and opening up is surging throughout China, but Hubei's economic development is faced with greater challenges than opportunities for the following reasons:

1. From a lateral comparison, further beginnings in reform and opening up in Hubei are steadily decreasing. If we say that the Third Plenary Session of the 11th CPC Central Committee was the beginning of Hubei's economic development, at which time central provinces were about equally matched with those in southeast China, or even well-off in relation to the rest of China,

then a dozen years of reform and opening up have left us facing a grim situation of "coastal and border provinces rising, while central ones are sinking." Moreover, even among central provinces, Hubei's economic might has gradually shrunk. For instance, Hubei's GNP and gross value of social output were both higher than Hunan's before 1980, but they have gradually decreased to about 10 percent less than Hunan's since 1985. Hunan's township enterprise gross output value in 1990 topped 80 billion yuan, or more than double Hubei's. Hubei's current export turnover accounts for only 2 percent of China's, and our "three kinds of foreign-invested enterprises" (FIEs) account for less than 2 percent of those throughout China, so are almost not even worth mentioning. While the large city of Wuhan formerly held a leading economic position throughout China, its current gross value of social output is not only not comparable to that of other large cities, such as Beijing, Tianjin, and Shanghai, it is even lower than that of mid-size cities, such as Hangzhou. Just as a boat sailing against the current must either forge ahead or be driven back, as other provinces are already facing the new round of reform and opening up from a higher starting point than us, they will undoubtedly seize greater market share and leap to a higher stage of development. If we do not adopt unique strategies and remedies, it will be very hard to reverse Hubei's inferior standing in the lateral comparison of economic development.

2. Even more critical is our lag in reform and opening up ideology. If we say that current conditions are presenting very good opportunities for economic development, then while these opportunities may be the same for all areas, the possibility of seizing these opportunities differs greatly as to final result. This means that we will have to take a masterly and pioneering approach to reform, through boldly exploring while adhering to the four basic principles, and by acting bolder and faster. The pace of reform and opening up in various areas is directly related to the degree of ideological liberation of their decision-makers and executives. Henan, Sichuan, and Hunan Provinces have focused in recent years on combating the "interior-province mindset," greatly freed up their thinking, and developed abundant economic development stamina, Hubei is still largely hampered by the ideological baggage of "self-sufficiency," handcuffed by various subjective and objective factors, and relatively lacking in initiative. To help overcome these problems, the scholars posed the following specific questions as food for thought. 1. Do we have the local power to regulate and control our centrally-dominated provincial economy, and if we do, how should we use it? 2. As large- and mid-size state-owned enterprises are the "dominant force" in Hubei's economy, is there space and opportunity to develop township enterprises on a large scale, and if there is, how should we do so? 3. As an interior province, does Hubei have the opportunities and qualifications for opening up to the outside world, and how should we overcome the difficulties and take advantage of our qualifications? 4. As Hubei is a raw materials province that is "more worried about too great than too

little demand," and is macroeconomically important but relatively passive, what structural adjustments should we make to remedy this? 5. Why did we fall behind in the former phase of reform and opening up, and should we not conscientiously sum up this experience as a basis for taking feasible and enterprising countermeasures to catch up? The experts all noted that if everyone throughout Hubei reached the right consensus on these questions and took positive actions, we would be able to seize the opportunities, lift up our heads, and catch up.

## II. "Inadequate Development" Remains Hubei's Major Economic Growth Problem

Other hotly-debated topics were the assessment of Hubei's basic conditions, Hubei's current economic development stage, and Hubei's basic characteristics. This was because once these matters were cleared up, there would be a practical basis for overall follow-up reform and opening strategies and measures. As most comrades believed that Hubei's current economic development is still in the initial stage of industrialization, and the overall judgement was that Hubei has not yet gotten out of the "speed-growth" stage, and has an economy with "severely inadequate development," its major tasks for follow-up reform and opening up on a provincial scale are to spur the expansion and extension of modern industry and a contemporary economy as quickly as possible. It was judged that, except for a few areas and industries, a conversion to the "efficiency-growth" stage in the immediate future would be both impractical and unrealistic.

The major grounds for this judgement were as follows: 1. Hubei's industrial structure is "weighted towards heavy industry and agriculture," but most intermediate industries between agriculture and heavy industry, light industry in particular, are undeveloped, with tertiary industries being even more so in a "wasteland reclamation" stage. 2. Hubei's township enterprises are not only few in number, but also structurally backward, having an even greater gap with those in advanced provinces (cities). Since the Third Plenary Session of the 11th CPC Central Committee, we have missed a golden development opportunity. During the three years of improvement and rectification, while many provinces guaranteed the development of township enterprises, by speeding up structural adjustment along with ensuring the necessary growth rate, Hubei's township enterprises declined and many of them even collapsed. 3. Except for shortages of coal and iron, Hubei has an abundance of other industrial mineral resources, but we are very backward in developing and using them. Some are lying idle, others are being mined by peasants, and there is severe waste, so that there is an urgent need to develop and use them with modern industrial equipment. 4. Even our heavy industry now uses very outdated technology and equipment, and large-scale upgrading still actually lacks investment drive.

This shows that modern industry in Hubei is limited to a very few large and mid-size cities, while most small and

mid-size cities, particularly our vast rural areas, are either in the initial stage of industrialization or have not even begun to industrialize. During these years of reform, while many other provinces have emphasized modern industrial expansion, extension, and ground-work, which have greatly upgraded their traditional modes of production and industrial structures, Hubei has lagged behind, so has continued step-by-step to fall even further behind. To ensure our traditional revenues and "iron ricebowls," the smaller our modern industry, the more it needed to be controlled, and the tighter it was controlled, the worse our investment climate, the harder it was to establish the principle of "free entry," and the slower our economic growth rate, so that it was impossible for us to improve our economic efficiency.

In light of such conditions, some of the experts made the following particular points: 1. As to the relations between outward expansion and inner development, we should proceed from Hubei's actual conditions, by not putting undue emphasis on central policies. In a certain sense, as Hubei's economy is certainly not "overheated," applying central policies across the board to our weak economic underpinnings would interrupt the logical process of modern economic development. As a very under-industrialized area, Hubei's most pressing tasks are to raise our investment and capital formation rates, expand our industrial sector as quickly as possible, and enable advanced production modes to rapidly acquire overall dominance, without which all would be in vain. 2. Correspondingly, we must correctly evaluate the relations between "speed" and "efficiency." Our conditions mean that without the proper growth rate (about 10 percent), we will be unable to develop our industry, ensure revenues, solve unemployment, or make anything more than "castles in the air" about increased efficiency. As modern economic development invariably begins with the growth rate, with a definite growth rate accompanying a given expansion of scale, it is only expansion of scale intersecting with the soft limitations of cost, technology, and market demand that produces the inherent demand for efficiency. As rate and scale are the objective basis for higher efficiency, the call for an overall conversion to the so-called "efficiency model" is an unrealistic ahead-of-its-time slogan as far as Hubei is concerned, which cannot solve our most pressing immediate problems. Our most urgent need is to take advantage of reform and opening up to boldly ease our policies to form a wave of investment that is diversified in sources, forms, and channels, so that we can first achieve the necessary rate of industrial growth, and get onto a level playing field with the other more advanced provinces. In this process, efficiency and technological progress will occur naturally.

### III. The Strategic Thinking Behind "Striving for Development Through Reform"

All of the experts agreed that while China's current economic development is naturally related to the success or failure of our development strategy, it will depend even more so on dynamic and in-depth reform. The

strategic thinking behind "striving for development through reform" is an essential ideological basis for revitalizing Hubei's economy. We must be just as bold as the coastal provinces in "opening up," "freeing up our thinking," and "pioneering," as well as in soliciting customers and raising funds from, and competing with, the whole world. With this general guiding ideology, we must practice a strategic policy of combining reform with development, while giving precedence to reform, outward expansion with inner development, with the emphasis on outward expansion, and investment with S&T, with investment leading the way. This will mean taking the following specific steps:

1. We must develop township enterprises on a large scale, and focus on revitalizing our state-owned enterprises. Hubei's two economic defects are our shortage of township enterprises and our inefficient state-owned enterprises. Our shortage of township enterprises makes it impossible for township enterprises either to have a forceful impact on our "mostly agricultural" industrial structure, or to open up jobs for our millions of surplus rural workers. This keeps the average peasant income far below expectations, which prevents improvement of our overall economic capability and national might. Our inefficient state-owned enterprises are a great drag on our urban economic development, which prevent structural progress and technological pioneering, and are the cause of our high-cost output and inefficient supply. Solutions to these two major problems will obviously be found only through reform.

We will have to make "bold" stands in either developing our township enterprises or revitalizing our state-owned enterprises. As to township enterprises, while the provincial government has recently granted a preferential policy of tax reduction and exemption, it also needs to draw up related regulations on "freedom to pioneer" and "free industrial entry." The initiative of municipal, county, and township governments in developing township enterprises also needs to be brought into full play. We should simultaneously develop both "privately-run" and "government-operated" township enterprises to open up free competition, and the government should give special support to certain industries to prevent exploitation of scarce resources. To revitalize our state-owned enterprises, some scholars recommended making them market-oriented in a classified and step-by-step way. Except for exercising the necessary control over infrastructures, the public sector, and certain noncompetitive industries that must remain under state control, all other competitive industries must be freed up to market regulation. Thus, we must eliminate "flexible prices and subsidies," and except for special circumstances, also stop granting "flexible-tax" treatment. Funds must be uniformly issued by banks based on efficiency, enterprise cadres and workers must be elected and hired by enterprises, and wages must be determined by markets. This will bring about a rational disposition of assets, a quick conversion of structures, and a steady upgrading of technology, so that we can achieve low-cost output and efficient supply.

2. We must make breakthroughs in circulation and banking reform. Everyone noted that carved up markets, incomplete systems, and blocked circulation are huge obstacles to Hubei's economic development. Without markets, there can be no modern commodity economy. A particularly crucial part of our market deficiency and blocked circulation is our lack of money markets and our blocked "value circulation." Hubei's shortage of development funds is a glaring problem, but we cannot blame it all on the center's withdrawal of investment, because a key factor in this problem is our lack of the coastal-province spirit of "boldly raising funds from the whole world."

While some remarked that the "takeoff of two-way circulation" would lose us market share to commodities from other provinces, this is not the whole of it. Without brisk markets, our enterprises will lack the drive of market competition, our product quality will be low, and commodities from other provinces will be bound to break into our markets. Without money markets, "breathing" money will be required to take even the first step, which was proved by Shanghai's recent opening of a branch stock market agency in Wuhan. As these are not defects of brisk circulation, but rather precisely the bitter fruits of its absence, we must make our reform market-oriented, through devolving authority to markets, and by establishing a complete system of commodity, labor, technology, and money markets. Once we have laid this market foundation, our economic development will "proceed smoothly."

3. We must focus on structural adjustment. All of the experts noted that reform structural adjustment must bring the role of government into full play, while proceeding according to market laws to avoid that past style of acting in accordance with the "will of superiors or officials alone." In Hubei, our industrial structure is slanted towards basic industries, raw materials production, and agriculture, our economic regional distribution structure is slanted towards cities and the so-called "triangular belt," and our investment structure is slanted towards budgeted projects and large- and mid-size state-owned enterprises, while neglecting extrabudgetary, non-governmental, and township enterprise investment. As all of this results from not acting in accordance with market laws, focusing on structural adjustment boils down to deregulating markets. This will mean encouraging nongovernmental investment to drive market-oriented assets conversion, plus appropriate governmental industrial guidance to attract a wave of investment in all areas and industries, greatly speed up the development of light industry and "short-term, equal-opportunity, and quick" projects, and thus correct our structural status quo, which is severely imbalanced.

4. We will have to guarantee our success through administrative reform. As Hubei's carved up provincial, municipal, and local administration and "dictatorship at each level" is so severe that it is a great obstacle to our market formation and economic development, the comrades who took part in this forum were unanimous that

our new round of reform and opening up would require our administrative system to adapt to our economic development needs, by promoting the formation of uniform markets throughout Hubei, coordinating provincial and municipal administration, and linking up all cities and counties. To achieve this goal, we must take the following steps: 1. We must weaken our dictatorship at each level, by strengthening our comprehensive sector. Some comrades recommended that except for our tax revenue, planning, and industrial-commercial management sectors, the other responsible sectors (departments, offices, commissions, and bureaus), which directly interfere in enterprise operations and are obstacles to market coordination, should make a commitment to "withdraw and switch to administration of other matters," and should make "cut-backs." Even our planning sector should devolve most of its investment examination and approval authority, by cutting back on its directive planning and expanding its industrial guidance. 2. We must also make a commitment to solve our problem of lateral blockades. To do this, some of the experts suggested that our provincial, municipal, prefectural, and county party and government institutions should take a new tack, by acting only as "attendants" and "arbitrators" in commodity production instead of superseding enterprises and markets, and should play the dynamic role of "the host" in the economic arena, by letting economic development spread naturally according to lateral market ties. We should ensure that interregional commodity circulation is not impeded, that banks invest in excellence instead of operating by administrative division, and that commodities and labor are deregulated to a single market standard as to supply and regulation. Governments should practice more positive policymaking for and less interference in economic development. When the direct economic interests of governments at all levels and at the same level no longer clash, conflicts will naturally be eliminated and our economic development will be conscientiously ensured.

#### **IV. Hubei Should Take Strategic Steps To "Strike Out on a New Path"**

Many comrades noted that as Hubei's past economic development emphasized "mandated" steps to the exclusion of more "flexible" ones, in that the government ran the whole show, undertook the whole thing, and made itself responsible for the completion of all tasks to the detriment of bringing market forces into full play, our new strategic steps should be greatly revised, so that we can break free from conventional formulas and conscientiously strike out on a new path of development through reform. In detail, this will mean giving priority to the following tasks:

1. We should "speed up production through commerce." As the promotional role of circulation in production actually reflects the conditioning impact of public demand on social production, we must accomplish the following major tasks: 1. We must revise our enterprise proficiency assessment indicators. At present, as long as enterprises produce output value, banks will provide



them with operating funds to pay wages. This has resulted in tens of billions of yuan worth of industrial inventories overstocked with unmarketable products. In the future, we should make enterprise sales income and overall taxes and profits hard enterprise proficiency assessment indicators. All those whose income does not match expenses should be granted no operating funds to make our enterprises more market-oriented. 2. We should set deadlines for clearing out inventories. As to our current large amount of overstocked inventories, we should give enterprises the price-setting authority to deal with them and set deadlines for clearing them out, to free up this "stagnant money" and ease the pressure on both enterprises and banks. 3. Based on open provincial, municipal, and county borders, we should establish transregional industrial or departmental sales networks, allowing concerned enterprises to talk face to face and freely join industrial sales organizations. A provincial "coordination office" should build bridges between industries, by establishing province-wide futures and wholesale markets and launching large-scale sales campaigns to increase the market share of Hubei products on Hubei markets and provide sales radiation for markets in other provinces as quickly as possible. 4. To ensure that circulation conscientiously speeds up production developments, the government should classify all enterprises, check and ratify enterprise assets and technical makeups, and put into effect fairer tax policies, by basically putting an end to flexible taxation and subsidization, appropriately conceding profits, ending its support of backward enterprises at the expense of more efficient ones, and hardening enterprise budgetary restraints. This will keep enterprises from shifting sales losses onto the state, and enable circulation and its accompanying market competition to truly spur enterprises to constantly upgrade their technologies, develop new products, and toughen and develop through commodity economy practices.

2. We should "revitalize large enterprises by promoting the development of small ones." We have long emphasized large- and mid-size state-owned enterprises at the expense of township enterprises, and in fact, the former "have might but no vitality," and the later "have vigor but no power." The major cause of this was that we did everything for large- and mid-size state-owned enterprises, while not providing enough preferential policies for the development of township enterprises, which kept both from bringing their advantages into full play. As township enterprises develop quickly and can cover our vast number of small and mid-size cities and rural areas, our path for the immediate future should be to "revitalize large enterprises by promoting the development of small ones." We should slant our credit and investment toward small enterprises, encourage nongovernmental and collective investment, provide preferential tax policies for a given period of time to small enterprises, township enterprises in particular, and develop these enterprises completely according to market economy demands into independent commodity producers and managers. The actions of these enterprises will form

complete market "game rules," which will influence, reform, and even shift township enterprise operating forces to large- and mid-size state-owned enterprises.

3. We should "promote internal development through foreign trade." Hubei's current foreign trade turnover is less than 2 percent of China's, which gives no impetus to our economic development, and prevents our formation of an orderly product mix and economic structure. This problem grows out of our lack of bold market competitiveness and our too low aims. Only by boldly aiming at the international market and actively competing can we steadily improve our product quality. Only brisk foreign trade can drive us to improve and replace our products and develop a higher-tech product mix. To "promote internal development through foreign trade," we will have to accomplish the following: 1. We will have to break free from "mid-level obstruction," by giving qualified enterprises direct foreign trade rights. If our foreign trade organs procure whatever enterprises produce, it will be impossible for enterprises to understand international conditions and absorb advanced technology. 2. While striving to open up the port of Wuhan, we must work to open up a number of other Hubei ports along the Chang Jiang, so that more enterprises can directly enjoy and make use of such port rights. Of course, "promoting internal development through foreign trade" is not simply a matter of circulation, but is even more one of production. As we cannot expand foreign trade if our production does not keep up, "promoting internal development through foreign trade" also means attracting foreign investment on a large scale and opening up special zones. As our present few small special zones are strictly speaking only demonstration projects with certainly little impact, we should go all out to open up all of Wuhan to the outside world to turn it into the biggest interior special zone, while revising our policies on a provincial scale to provide Hubei with a good climate for attracting large-scale foreign investment. Other comrades suggested that we could do a "one enterprise, two system" reform of our state-owned enterprises, by allowing state-owned enterprises to directly attract foreign investment in various forms to develop a "mixed system," of which Hubei already has precedents (such as the Pufang and Tianlong companies). Practice has proved that this can help to speed up enterprise reform, upgrade technology and management skills, and make us more competitive.

4. We should "establish a social security system to speed up revitalization." While breaking free from the "three irons" is a huge reform movement that is now sweeping the whole country, and one that has crucial significance for the revitalization of enterprises, this problem must be considered in the overall context of developing markets. Without a complete labor market and a complete social security system, the system of free job choice would have great social repercussions, and might even eventually result in the failure of the new system. Therefore, we recommend that, while breaking free from the "three irons," we should quickly perfect our labor market and

establish a corresponding social security system, including components, such as a job introduction agency, an unemployment wage system, and a labor insurance system. Only by dealing with these matters can we acquire the basis on which to break free from the "three irons" and realize the possibility of revitalizing our enterprises.

5. We should "promote structural adjustment by opening up stock markets." Hubei's structural imbalances and assets immobility are the results of a highly planned economy, our lack of money markets in particular. The key to opening up money markets is opening up stock markets. Once stocks can be issued and circulated on a large scale, enterprise assets will finally be able to be transformed into "commodities with property rights" that can operate uniformly according to market forces, and will be able to circulate throughout society. In this way, structural adjustments and high-tech developments can occur along with assets circulation. Moreover, as opening up stock markets will also attract large-scale domestic and foreign investments, we should vigorously call on the central government to provide the necessary policies for conducting experiments, such as operating a large-scale securities exchange in Wuhan. We should draw up trade regulations, train securities brokers, and allow a number of qualified enterprises to market shares first. If we can push the number of such enterprises to 50 by the late 20th century and 100 by the early 21st century, we will be able to evolve money markets of a sizeable scale. In this way, higher-tech industry and improved structures will drive our whole economy to take off.

6. We should "spur the transformation of our traditional agriculture with commercialized agriculture." Hubei's whole agricultural base is still hampered by the traditional concept of self-sufficiency. Without commercialized agriculture, there can be no agricultural modernization. Thus, the concerned experts recommended that as to grain production, we should cut out a certain part of our paddy-rice production area, and replace it with cultivation of grains, such as wheat and corn, that Hubei lacks and must import from other provinces. To speed up the development of commercialized agriculture, the provincial government should make certain efforts based on the agricultural resources of all areas to promote a production mode of "crop rotation and regional division of labor," while continuing to improve the household responsibility system of linking remuneration to output, and gradually putting "small but complete" onto a modern, specialized production path of "small but specialized" and "large and specialized." Moreover, we should vigorously develop peasant or state-run rural commerce and transportation, expand our agricultural product processing industry, and push forward with modern agricultural advances.

## FINANCE, BANKING

### State Commission Outlines Shareholding System

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GAIGE in Chinese No 5, 23 May 92 pp 20-24

[“Special-Topic Report” by Production System Department of State Commission for Restructuring Economic System: “Properly Run Joint-Stock System Pilot Projects According to Standardized Requirements”]

[Text] Editor's Note: In his important remarks during his South China tour earlier this year, Comrade Deng Xiaoping pointed out the "necessity of resolutely experimenting" with such things as securities and stocks. Premier Li Peng also pointed out in his government work report at the Fifth Session of the Seventh National People's Congress: "The shareholding system is an effective way of raising construction funds and supervising enterprise management and is conducive to accelerating change in enterprise mechanisms." At present, joint-stock enterprises, stock markets, and so on have become heated topics among the public. However, most people lack a comprehensive understanding and thorough appreciation of them. Articles in this issue are aimed at helping people understand, in theory and practice, the current condition of the shareholding system in China, as well as its development and other issues so as to push forward unswervingly experiments in shareholding systems and stock markets and to enable them to develop healthily and advance toward standardization. [end editor's note]

From 29 February to 4 March this year, the State Commission for Restructuring the Economic System and the State Council Production Office jointly held a "Symposium on Experimental Work in Joint-Stock Enterprises" in Shenzhen. The attendees exchanged information on the condition of experimenting with shareholding systems in enterprises, studied the effect of joint-stock operation mode on enterprise operational mechanism transformation, and amended "Opinions on the Standardization of the Formation and Experimental Work in Joint-Stock Enterprises" and 10 supporting documents. Those attending the meeting included 13 departments of central state organs; 14 provincial and city commissions (or offices) of economic structural reform, economic (or planning) commissions, financial institutions, and assets management organs; 21 pilot joint-stock enterprises; and three theoretical research workers on the shareholding system, totalling 130-odd people. Comrades Zhang Yanning and Liu Hongru presided over the meeting, and Comrade Chen Jinhua attended the opening ceremony and delivered a speech.

The meeting was held just at the time when Comrade Deng Xiaoping's important remarks were being relayed to lower-level units throughout the country. Deng's important remarks were of vital guiding significance to the meeting and greatly encouraged the participants.

The meeting was held in good time and was well received by all quarters. Special mention should be made to the 13 departments of the State Council, which, according to the urgent demands of formation and experimental work in joint-stock enterprises, collectively put forward and worked out after coordination the "Opinions on the Standardization of Formation and Experimental Work in Joint-stock Enterprises" and 10 supporting documents of policies and regulations, which had a great effect among the participants and became focal points of study and discussion at the meeting. At the symposium, participants reviewed and summarized experimental work in the shareholding system in recent years. They unanimously maintained that the joint-stock operational mode has played a positive part in transforming enterprise operational mechanisms, increasing enterprise vitality, raising funds to develop the economy, ensuring the preservation and appreciation of state asset values, readjusting the industrial structure, and so on. Hence, the meeting stressed the necessity of actively and unswervingly making further experiments in the shareholding system.

### **The Development Conditions of Joint-Stock Enterprises**

China's joint-stock enterprises have emerged and developed along with the elevation of the socialized production level and the growth of the socialist commodity economy. They are products of economic structural reform. The "Decision of the CPC Central Committee on Economic Structural Reform" pointed out: The socialist economy is a planned commodity economy on the basis of public ownership and increasing enterprise vitality is the key link of economic structure reform. The development of the commodity economy calls for enterprises to have a financing channel that pool funds rapidly, a link that can merge assets between enterprises, and an organizational form suitable to the diversification of the main investment bodies.

In the early 1980's, some enterprises broke through regional, departmental, and ownership-system barriers and formed various integrated patterns one after another. In lateral associations between enterprises, they incrementally developed from purely production and technological coordination to merging stocks through capital, equipment, and technological investments. Other enterprises raised funds in the form of shares to develop projects or establish new enterprises. Since 1984, the formation of joint-stock enterprises has made a relatively big advance in its scope. In November 1984, Shanghai Feiyue Hi-Fi Corporation founded by Shanghai Electric Audio General Plant issued shares to the public and became China's first comparatively standardized shareholding limited liability company since Liberation. In September 1986, Jingan Securities, a department of the Shanghai Trust and Investment Corporation of the Industrial and Commercial Bank of China, put up a sign to conduct over-the-counter stock trading, becoming China's first stock-market dealer since

Liberation. After 1987, joint-stock enterprise pilot projects increased rapidly in various localities. During the entire period of improving the economic environment and rectifying the economic order which started in 1989, formative and experimental work in joint-stock enterprises began to focus on perfection and enhancement, which was manifested in: 1) Continuing experiments in shareholding systems in the form of merging stocks or enterprises cross holdings; 2) shareholding system experiments in the form of shares held by enterprise staff and workers were confined to their original scope and those which had started experiments were gradually perfected, enhanced, and standardized and special attention was paid to the covert expansion of consumption; 3) coordinated reform experiments in the form of issuing shares to the public were restricted to Shanghai and Shenzhen only.

From the above development process, we can see that the formation of and experiments in the shareholding system are explorations which suit the development of the socialist commodity economy. Taken as a whole, this work has been conducted step by step in a guided way.

According to statistics from the beginning of this year, there are 3,220 joint-stock enterprises of various types in the country (not including township and town enterprises under the cooperative system, joint ventures, and internally associated enterprises). Of these, 89 are pilot enterprises issuing shares to the public and account for 3 percent of total joint-stock enterprises; 380 have shares held by legal persons among other enterprises, accounting for 12 percent; and 2,751 have shares held by staff and workers within enterprises, accounting for 85 percent. The last type of enterprise is considerable in numbers but generally small in scale. These enterprises have been mostly transformed from enterprises under collective ownership. The number of shares held by staff and workers is worth approximately 300 million yuan, accounting for less than 20 percent of the total amount of shares of these enterprises.

The number of industrial enterprises is largest in joint-stock enterprises, totalling 1,781 and accounting for 55 percent; commercial enterprises total 940, the second largest, and account for 30 percent; the rest are financial enterprises, 171 of which account for 5 percent; construction enterprises, 58, 2 percent; communications enterprises, 28; and enterprises in other sectors, 240. This shows that experiments in joint-stock enterprises are mainly being made in industrial and commercial enterprises, which are situated mainly in eastern China.

In joint-stock enterprises, those reorganized by state and collective enterprises account for 85 percent, and those remaining are those reorganized by internally associated enterprises. The 89 pilot enterprises, which publicly issue shares to society are mainly concentrated in cities and provinces including Shanghai (17), Shenzhen (17), Sichuan (13), Zhejiang (8), Shandong (6), Henan (6), and Yunnan (2). The total amount of money that has been paid for shares is 5.81 billion yuan. Of the total, money

paid for shares held by the state is 2.74 billion yuan, accounting for 47 percent; by legal persons from other enterprises, 1.68 billion yuan, 29 percent; by individuals, 830 million yuan, 14 percent; and by foreign investors, 530 million yuan, 9 percent. These figures show that enterprises under public ownership hold a dominant position among joint-stock enterprises which issue shares publicly.

#### **The Positive Role Played by the Joint-Stock Operational Mode**

Experiments with joint-stock enterprises indicate that achievements have been scored in experimental work over the past few years, although time has been short and the quantity of pilot enterprises small. The joint-stock operational mode has had a positive effect on developing social productive forces and promoting growth in the socialist commodity economy, which is mainly shown as follows:

—It is conducive to raising funds for key economic construction projects and opening up new financing channels.

In recent years, 89 pilot enterprises issuing shares to the public transformed consumption funds of 830 million yuan into production and construction funds and solved their problems of insufficient development funds.

Under conditions of comparatively perfect stock markets, the fund-raising function of shareholding systems can be better displayed, i.e., raising more construction funds through issuing shares at a premium. The state can also levy taxes from stock dealings so as to increase financial incomes. Moreover, through issuing B shares, there is another new channel for attracting foreign capital.

—It is conducive to the preservation and appreciation of state asset values.

Operation by shareholding system is conducive to raising the utilization rate of state assets, and hence, their preservation and appreciation of their value. This is because pressure from shareholders forces enterprise operators to always remember their task of increasing asset values. Judging from experimental conditions in recent years, it is even more beneficial to giving full play to the guiding role of the economy under public ownership in drawing funds from multiple economic sectors to joint-stock enterprises with public ownership as the main body. With regard to solidifying the leading position of public ownership, it was probably more favorable to guide capital utilization flows through holding shares rather than to develop private enterprises alongside state enterprises.

—It is conducive to regulating interest relationships between localities, departments, and enterprises, and giving impetus to the readjustment of the industrial structure and the development of enterprise groups.

As an organizational form for enterprise properties, the shareholding system not only concretizes the ownership of an enterprise's total property, but also divides it into smaller portions convenient for transfers, thus creating favorable conditions for enterprise property rights to flow throughout society, for the development of enterprise groups, and for the readjustment of the industrial structure.

—It is conducive to accelerating the transformation of enterprises' operational mechanisms.

Experiments indicate that the self-restraining mechanism for joint-stock enterprises has been universally improved. Self-restraint stems from shareholders' supervision of production and operational conditions; from the reflection provided by the rise and fall of share prices on the market; and from the fair auditing of enterprises' financial accounts by registered accounting offices approved by the state and independent of the enterprises themselves. Managers of pilot enterprises expressed that, after state enterprises were reorganized into joint-stock corporations, restraints on property rights became a real pressure. Particularly after corporations' stocks were listed, their financial conditions were announced to the public and put under the supervision of shareholders and they felt much greater pressure than in the past when they were only responsible to particular government organs. This pressure vigorously spurs on enterprises to enhance their efficiency in input and output.

#### **The Major Problems in the Experiments of Joint-Stock Enterprises**

While recognising its positive role, the shareholding system has also faced some problems in the experiments, which should be studied and resolved. The major problems are:

##### **I. Statutes concerning the formation and experimentation in joint-stock enterprises have failed to keep pace with the demands of the situation.**

Formation and experimental work in joint-stock enterprises has been conducted for several years, but the formulation of statutes concerning these enterprises, such as company laws, securities laws, and stock exchange laws, have made slow progress and have not kept abreast of the demands of the situation. "Provisional Regulations on Shareholding Limited Liability Companies" worked out by Shanghai and Shenzhen have been approved by the State Commission for Restructuring the Economic System, the Ministry of Finance, the People's Bank of China, and the National Administration of State Property, hence, the formation and experimental work in Shanghai and Shenzhen has been conducted according to law. Some regulations have also been worked out in other localities. However, most of them lack distinctive concepts and have excessively strong local characteristics, so they have found it difficult to guide work effectively.

Since joint-stock enterprises are of a new enterprise pattern different from traditional enterprises, management methods formerly formulated in accordance with the nature of enterprise ownership no longer suits the demands of joint-stock enterprises, and they should be readjusted and formulated again in line with the spirit of reform.

**II. A considerable number of joint-stock enterprises are not standardized and do not act according to principles.**

As the original intention of forming joint-stock enterprises differ in various localities, especially because they are not restricted by statutes, there are a great variety of joint-stock enterprises in China, which are not at all standardized. Quite a few enterprises are "joint-stock limited liability companies" in name only, and, in reality, their organizational structure and management system remain the same as original traditional enterprises. They have just had their names changed.

In the experiments, instead of pursuing the principle of "fair shareholders' equity, mutual undertaking of risks, and the same returns for the same shares," some enterprises have set different dividend rates for shares held by the state, corporate bodies, and individuals, and, generally speaking, the rate for individual's shares is higher than for state and corporate bodies. A considerable number of enterprises have mixed up shareholder's equity and creditor's rights, stocks and bonds, as well as stock returns and interest income and practice the "three guarantees" (guarantees of principal, interest, and dividend payments) for shares held by individuals so that dividends are much higher than interest from bank deposits, which defeats the purpose of stocks and fails to achieve their end. A few of them even take the use of staff-worker shares within enterprises as a means of expanding bonuses.

In the internal management structure, most enterprise shareholder meetings and boards of directors are but empty shells, which are far from being sound. Responsible persons, including chairmen, directors, and general managers continue to be appointed by the relevant upper-level departments and these positions continue to be filled by people from the original enterprises.

**III. In some pilot enterprises, assets were excessively underestimated or were not assessed at all.**

In joint-stock enterprises which issued shares to their staff and workers, most shares were valued by using enterprises' net book assets without calculating land use costs, depreciation of plant and equipment, as well as intangible assets. Some enterprises simply did not make an assessment of assets, which resulted in a loss of public assets or infringements on the interests of shares held by the state.

**IV. The phenomena of excessive speculation and overheated stock dealings have appeared.**

Since the number of listed joint-stock enterprises is not very large and the input volume of stocks is quite small now, the supply-demand relationship of listed stocks is so unbalanced and the fluctuation of share prices so big that this has led to excessive speculation and the concentration of stocks in a few people's hands.

At present, the masses still lack a comprehensive understanding and penetrating appreciation of stocks, stock markets, stock dealings, and so on, and they think that the listing and public issuance of enterprise stocks are approved by the government and are very reliable. Besides, those listed generally operate with relatively better economic results and at a relatively higher operational and management level. Therefore, a great many people lack the psychological preparation for the risk involved in stock dealings and place excessively high expectations on stock appreciation. Problems occurring in enterprises, stocks, and stock markets which affect shareholders' interests, will inevitably develop into social problems and would probably proceed in touching off political problems. In this regard, we must treat it seriously.

**V. In-depth development of experimental work is seriously affected by a lack of knowledge of the shareholding system, a lack of experience, and a lack of qualified personnel.**

At present, managerial personnel and leading comrades in many economic departments, and even persons concerned in pilot enterprises and those planning to conduct experiments, universally have a limited basic knowledge of joint-stock enterprises, stocks, and stock markets, and they have still less knowledge of the operation of stocks and stock enterprises and the manipulation of stock markets. This has become an important obstacle to further standardization of formation and experimental work in joint-stock enterprises. This is also the reason why, in some localities, the formation of joint-stock enterprises was purely regarded as a means of raising funds to mitigate a lack of funds for construction projects.

At present, problems in the formation of and experimentation in joint-stock enterprises are not caused by the shareholding system itself but, in most cases, by the external environment and existing conditions. In the future, instead of expanding its numbers within the existing model, we should strengthen guidance, make demands clear, help existing joint-stock enterprises make continuous improvements in line with the stipulations of standardization, and should actively carry out new experiments on standardized joint-stock enterprises. We should also note that the shareholding system is only one of many diversified operational modes for enterprises. Under present conditions, various operational modes all play a certain role in revitalizing enterprises, yet they all have certain limitations. Besides, they have a common external environment and conditions



for reform. At present, we should encourage enterprises to proceed from their own actual conditions and select the operational modes that best suit them rather than artificially going in for "acting in a gust of wind" and "seeking rigid uniformity." The exploration of joint-stock enterprises and experimental work must be carried out courageously, solidly, and conscientiously under the overall consideration of China's actual conditions, including the economic situation, the level of managerial expertise, quality of personnel, and so on.

#### **Doing the Next Step of Experimental Work in Real Earnest**

To further do a good job of forming and experimenting on joint-stock enterprises, many issues have yet to be thoroughly studied and substantial actual tasks remain to be properly fulfilled. In the future formation of and experimentation in joint-stock enterprises, we must stick to the principle of "bold experimentation, intensified guidance, and taking prudent and appropriate measures" to conduct thorough work and push forward reform. The general guiding ideology is to carry out experiments resolutely, put stress on quality instead of quantity, and guard against chaos. At present, there are voices everywhere calling for practicing shareholding system on a trial basis, in particular, there have been appeals to publicly issue shares and set up stock markets. Though the zeal is a good thing, we must be on the alert about rushing headlong into mass action and bringing chaos to the shareholding system. If things go astray, it will lead to unmanageable consequences. Experimentation in the shareholding system is a matter involving profound legal connotations, great technical difficulties, and complicated operational procedures, and it is a very sensitive thing as well. Therefore, we must be both daring and steady in doing experimental work, which should be carried out in stages and in a down-to-earth manner. By doing work well, we mean experimenting with actual results strictly according to basic standardization and using facts to seek unity in thinking and understanding.

—Formulating as quickly as possible statutes and methods concerning the formation of and experimental work in joint-stock enterprises.

At present, there are two regional statutes in Shanghai and Shenzhen, which can be used for reference by others. National statutes and methods such as "Company Law," "Securities Law," and "Stock Exchange Law" had better be worked out as quickly as possible, though certain difficulties exist. Before these laws are formulated, the State Commission for Restructuring the Economic System intends to draw up with departments concerned "Opinions on Standardization of Formulation and Experiments of Joint-Stock Enterprises" and supporting policy documents to serve as the basis for conducting experimental work in various localities. This set of documents will be transmitted to lower levels jointly by

the State Commission for Restructuring the Economic System and relevant departments in the first half of this year.

—Further strengthening leadership and coordination work on stock markets.

The listing of joint-stock enterprises locally and in other places as well as the issuance and trading of stocks involve the examination, auditing, and supervision of joint-stock enterprises, the management and supervision of stock exchange bodies, and state macroeconomic regulation and control, which have a unified integrity and require collective work in organization and coordination through structural reform, planning, banking, financial, and many other departments. The current situation of decentralized and multiple management and the condition of various tasks being out of joint and even contradictory to each other, are detrimental to the unified arrangement of work and have affected the unified management, supervision, and implementation of necessary regulations and controls on the securities industry. This has called for the establishment of a unified management body. We may consider whether it is now time to set up a securities management committee or a leading group under the State Council to formulate policies and statutes on securities and coordinate the actions of relevant State Council departments in a unified way.

—Stepping up propaganda and training work.

First, we should pay special attention to organizing manpower to compile a booklet to popularize knowledge of joint-stock enterprises, stocks, and stock markets. Second, we should run training classes well. Trainees will mainly be leading comrades of relevant localities, comrades in charge of commissions for structural reform and economic committees (or planning and economic committees and production offices) in various localities, and chairmen, directors, and managers of pilot joint-stock enterprises and those planning to conduct experiments. Third, we should do well propaganda work in all areas so that the masses will understand what a standardized shareholding system is.

—Thoroughly study the issue of stock market management.

Judging from the current situation, we should mainly solve the following two problems: One is to avoid market manipulation; and the other is to prevent insider trading to ensure the healthy development of stock markets and the normal operation of stock dealings.

—Create conditions to push forward experimental work by stages and in a planned way.

China's joint-stock enterprises are by and large divided into four categories: 1) Joint-stock enterprises with shares held by corporate bodies; 2) joint-stock enterprises with shares held by staff and workers; 3) joint-stock enterprises with shares issued publicly to society

but with shares not listed for trading; and 4) joint-stock enterprises with shares issued to the public and shares listed for trading. These four types of joint-stock enterprises have different characteristics, and there are different premises and conditions for their formation and experiments. Particularly because formation and experiments of the third and fourth categories are subject to strict requirements and are liable to produce social effects, we should conduct the work steadily and incrementally. As we should take into account the real situation and the actual reform progress, we should adopt the principle of differentiating between cases and treating them accordingly. In light of current conditions and possibilities, we should mainly carry out formation and experiments on the first and second categories in various localities. Experiments on the third category will be restricted to three provinces of Guangdong, Fujian, and Hainan, and they are also subject to the conditions of specific enterprises. Formation and experiments on the fourth category will be restricted to Shanghai and Shenzhen, which should be handled even more strictly. Experiments in this category have to be approved by the State Commission for Restructuring the Economic System, while the formation of extra large joint-stock enterprises and those having a vital bearing on national economic development have to be approved by the State Council.

We are prepared to further relax controls over shareholding system experiments in Shanghai and Shenzhen and carry out in-depth experiments according to internationally applicable statutes in a bid to probe into practice and experience for developing China's shareholding system as quickly as possible, transplanting them to other places, and providing guidance to the entire country.

We plan to attend directly to several experiments in large and standardized joint-stock enterprises to push forward standardization work and continue to study, with Shanghai and Shenzhen, relevant policies and coordinated reform of the joint-stock enterprises which issue shares to the public. Meanwhile, we are also prepared to study, with Guangdong, Fujian, and Hainan, ways of expanding experiments in the issuing of shares to the public and transfer shares, which are not listed for trading, to ensure the proper handling of experimental shareholding system work in the cities and provinces cited above.

### Shanghai Stock Markets Speed Up Development

92CE0546A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 22,  
8 Jun 92 pp 7-8

[Article by staff reporter Liang Lien-sen (2733 1670 2773): "Coming Out of 'Slow Movement'—a Special Visit With Wei Wenyuan (1414 2429 3220), General Manager of the Shanghai Stock Exchange"]

[Text] *Investment in stocks has become a hot topic among the people of Shanghai. Stock prices are reported daily by Shanghai newspapers, television, and radio stations. SHANGHAI ZHENGQUAN [SHANGHAI SECURITIES] published every Monday, has now turned out more than 40 issues, and each issue of more than 100,000 copies is sold out in two or three days.*

In May, this reporter paid a visit to the Shanghai Stock Exchange, where visitors showed up in a continuous stream. According to a journalist friend from SHANGHAI ZHENGQUAN, in the first four months of this year, 5,000 Chinese and foreign guests have visited the Shanghai Stock Exchange, more than double the number in the same period last year. Last year, the Chinese visitors' main purpose was to find out how a stock exchange operates, while the foreign visitors came mainly to see what they thought was unthinkable—the establishment of stock markets in socialist China. Now, the purpose of both Chinese and foreign visitors has clearly changed—from observation and fact-finding to participation. A frequent conversation topic among Chinese visitors is how to turn the existing state-owned enterprises into stock companies, the requirements and procedures for issuing stock, and so forth. Many foreign guests have come right to the point about their intention to apply for membership in the Shanghai Stock Exchange, or to open B-stock dealers or settlement banks, or even to establish securities companies as Chinese-foreign joint ventures.

There are a rather large number of Chinese and foreign reporters requesting interviews with the general manager of the Shanghai Stock Exchange. On the appointed morning, General Manager Wei Wenyuan had to meet with Japanese reporters and several other visiting groups, and I had to schedule an hour-long interview with him before his appointments with all the other guests.

### Move Fast in Small Steps and Avoid Shocks

He first talked about the changes in the Shanghai stock market this year. Since the beginning of this year, Shanghai has seen six new A stocks and one new B stock, and the number of corporate stocks on the market has increased from eight to 15. From January through April this year, the total volume of trade in securities reached 9 billion yuan, about equal to that of the last year as a whole. Of the total trade volume, last year stocks accounted for only 1.6 billion yuan, and bonds made up the rest. In contrast, stocks accounted for 2.7 billion yuan of the total trade volume in the first four months this year.

He said that the Shanghai stock market has made several readjustments this year. Between 18 February and 13 April, the prices of three stocks were allowed to rise and fall without restriction on a trial basis, and the prices of 12 stocks were allowed to fluctuate within a range of 5 percent. On 21 May, all restrictions on stock prices were lifted, and trading on a free and competitive basis

became the standard practice. By moving in small but fast steps, Shanghai has made the transition from intervention to market mechanism without causing shocks. In the course of the readjustments, stock prices fluctuated, instead of moving blindly in a single direction as they did in the past, and this gave investors a greater sense of risk.

#### **Promising Trend in Latter Half of the Year**

He said that at present supply falls short of demand for Shanghai stocks. Although several new stocks have been added, the problem remains fundamentally unsolved. The prices of new stocks have remained flat, and buyers' interest continue to focus on older stocks. As to the B stocks, trading is better than expected, and prices are stable. Readjustments are being made in the way trading is conducted, and efforts are being made to gain experience in hypothecation and so forth, which will give us confidence in the issuing of B stocks in the future. At present, there are too few B stocks to form a market.

General Manager Wei said that at present the Shanghai stock market is very small, only one-tenth the size of Shenzhen. However, after the readjustments in the first four months of this year, there are signs of sound development, and a good developing trend is anticipated in the latter half of this year. A number of new stocks will be issued in June, and by the end of the year there can be as many as 30-40 stocks on the market. By then, a firm foundation will be laid, and the situation of supply falling short of demand will be improved. New B stocks will also be introduced in June and July. It is estimated that this year's total securities trade volume will be 400-500 percent above that of the last year. Last year, trade in stocks accounted for 17 percent of the total securities trade volume. It has grown to 40 percent so far this year, and the volume of trade in stocks may exceed that of bonds by the end of the year.

#### **Crucial Year, Great Responsibility**

The reporter asked him to make a comparison between the Shanghai and Shenzhen stock markets. He pointed out that Shenzhen is a special zone with a more active market mechanism and better external environment than Shanghai, and that owing to the yoke of the traditional system, Shanghai faces greater difficulties in developing a stock market. Shenzhen's listed companies are mostly new enterprises with low taxes and good operational information. In contrast, Shanghai's companies have to pay higher taxes; enterprises are faced with reforms and switching to other types of operations, their economic performance is poor; and state-owned enterprises are to be turned into stock companies and faced with more problems. All these are unfavorable factors for Shanghai.

However, Shanghai's stock market also has its strong points. For example, it was computerized earlier than others. Since the day the stock exchange was opened for business, trade has been conducted without papers, with

accounts settled and transfers made centrally and automatically. The entire stock exchange at present has a staff of only some 60 persons. Management of the circulation market is relatively standardized, fair, orderly, and quite efficient. Moreover, the Shanghai Stock Exchange is pluralistic in structure and may well develop into the national financial center. At present, it has 42 member firms, of which 22 are from other provinces and cities, and the latter account for one-fourth of its total trade volume. There are also 60 securities dealers now applying for membership.

To speed up regulation by the market mechanism, the Shanghai Stock Exchange will completely update its computer software and hardware in the next two months to increase trading speed and stability. At the same time, it is considering constructing a new stock exchange building in Pudong, and construction may start before the end of this year. There will be a fully equipped central settlement center and information center. Before the end of this year, the stock exchange's network of subordinate units may increase from 40 to 140.

Wei Wenyuan said that to improve the trading in B stocks, the stock exchange is currently organizing further research and reform on the details of B-stock trading and account-opening work to bring them closer to international practices. In June, the Shanghai Stock Exchange will implement a trust bank system for B stocks to protect the rights and interests of overseas investors.

General Manager Wei felt that this year is pivotal for the Shanghai Stock Exchange to get out of the "slow movement," increase the speed of the market mechanism, speed up circulation, and expand the scale of the market. He said that the funds needed for the development of Pudong this year will have to be raised by the stock market, and that in this sense the responsibility of the Shanghai Stock Exchange is great.

## **INDUSTRY**

### **Heilongjiang To Develop Telecommunications Facilities**

*OW1507090592 Beijing XINHUA in English 0823  
GMT 15 Jul 92*

[Text] Harbin, July 15 (XINHUA)—Northeast China's Heilongjiang Province plans to accelerate the construction of posts and telecommunication facilities to become advanced in the field.

According to the Provincial Posts and Telecommunications Administration, the province will increase the number of telephone lines to over 1.4 million within the next few years.

The number of telephones in the province is expected to increase by an average 3.26 percent in province, while the percentage for urban areas will increase by some five percent, with a 20 percent increase scheduled for Harbin,

the provincial capital. The province will also install over 2,000 kilometers of micro-wave and fiber optical telecommunications lines.

Teng Shuren, director of the Provincial Posts and Telecommunications Administration, disclosed that some 80 percent of the province's cities and counties will install mobile telecommunications networks over the next three years, in addition to developing wireless services and computer networks.

Plans call for Heilongjiang to accelerate technical upgrading and expand automation of telecommunications. The program is expected to contribute greatly to economic development in the province, said Teng.

### **Auto Production Up Sharply in First Six Months**

*HK2407101192 Beijing ZHONGGUO XINWEN SHE in English 1313 GMT 23 Jul 92*

[Text] Beijing, July 23 (CNS)—China's auto industry has seen a rapid rise in the first half of this year with production and marketing of vehicles setting new records, according to information released by the China National Automobile Industry Corporation.

Car production enterprises turned out 428,700 vehicles between last January and June, 44 percent up from the same period last year, according to statistics. Production of modified vehicles was put at 29,200, a rise of 54 percent. The automobile industry in China tops all others in terms of productivity.

The turnout of sedans posted the greatest growth with more than 67,000 turned out over the first half of the year, a gain of 154 percent over the same period last year, while the number of light vehicles was over 110,000, a 38 percent rise. The manufacture of mini vehicles was put at more than 40,000, fulfilling over 98 percent of the target set for the whole year.

Statistics show that the turnout and marketing of vehicles have grown at the same pace since the beginning of the year. A total of 425,800 vehicles were sold over the first half of the year, striking a balance between manufacturing and marketing. By the end of last June, the auto inventory was put at 25,000, 28 percent down over the same period last year.

China's auto industry will gradually slow down in the second half of this year with monthly sales of vehicles registering no dramatic change, according to a projection by experts in the auto sector. Generally speaking, the balance between production and the market will still be basically maintained with no obvious increase in the inventory.

### **Textile Industry Shows Recovery in First Half of 1992**

*OW1707142492 Beijing XINHUA in English 1419 GMT 17 Jul 92*

[Text] Shanghai, July 17 (XINHUA)—China's textile industry began to recover in the first half of 1992, following a lengthy slump.

By the end of June this year some 1,270 state textile enterprises had produced 1.54 billion yuan in pre-tax profits.

This information was released at an ongoing national meeting on the textiles industry here.

Statistics show that in the January-June period the total output value of the country's textile industry stood at 114 billion yuan, 5.2 percent more than last year's performance in the same period. The sales volume in the first five months of this year rose by 1.99 percent over last year's corresponding period, and exports increased by 17.5 percent.

To make sure this trend continues the Ministry of the Textile Industry will put forward a series of policies this year. These policies will include lifting restrictions on more textile products, allowing 50 to 100 enterprises to export their products independently and developing raw materials markets.

## **TRANSPORTATION**

### **Xiamen Aviation Company To Purchase More Boeing Planes**

*OW2407110792 Beijing XINHUA in English 1013 GMT 24 Jul 92*

[Text] Xiamen, July 24 (XINHUA)—The Xiamen Aviation Company Ltd., in east China's Fujian Province, will add six new Boeing planes to its fleet, according to Wu Rongnan, general manager of the company.

The general manager said his company planned to buy three Boeing 737-200 planes from the United States and lease another three Boeing 737-500 planes from an aviation company in Norway. The first two planes will soon be sent to Xiamen City.

When all these planes are put into operation by the end of 1993, the annual passenger transport volume of the company will surpass two million people, doubling the present figure.

The general manager said his company will also invest 40 million yuan to construct a center for plane repairs and an aircraft parking area in the second half of this year.

The Xiamen Aviation Company Ltd., is the first regional civil aviation firm on the mainland. Formed in 1984, it

is a joint venture of the Civil Aviation Administration of China and departments concerned from Fujian Province.

At present, the company has got four Boeing 737-200 planes and operates 23 domestic and overseas air routes.

### **Shandong Builds Optical Fiber Communications Line**

SK1407103992 Jinan DAZHONG RIBAO in Chinese  
12 May 92 p 1

[Text] Our province decided to build a piping optical fiber communications "main artery" running from Jinan to Qingdao via Zibo and Weifang along both sides of the Jinan-Qingdao expressway which is under construction. It did this to meet the needs of opening to the outside world and furthering economic development.

With a total length of 750 km and an investment of some 60 million yuan, this communications line is expected to be completed simultaneously with the Jinan-Qingdao Expressway in 1993.

Upon completion, this project will connect with the three existing microwave trunk lines running from Jinan to Linyi and Qingdao, from Qingdao to Yantai and Weihai, and from Jinan to Yantai, enabling the microwave circuit and the optical fiber cable circuit to be used alternately, enhancing the reliability of information transmission, and alleviating the difficulties of having a shortage of long-distance electric circuits in the eastern part of our province. Meanwhile, it will also provide a reliable means of transmission for our province and other fraternal provinces and cities as well as for international communications.

### **Beijing Opens Highway From Xinjiang to Mongolia**

OW2007150392 Beijing XINHUA in English  
1428 GMT 20 Jul 92

[Text] Beijing, July 20 (XINHUA)—An international bus started its journey today from Qinghe County in northwest China's Xinjiang Uygur Autonomous Region to Bulgan city in Mongolia.

According to an agreement between the two countries, China will send a bus on 20th of every month and Mongolia on the 30th.

In addition to this newly opened highway, the region has three international highways—to Pakistan and the Republics of Kyrgyzstan and Kazakhstan, respectively.

Meanwhile, China's Inner Mongolia Autonomous Region already has a highway connection with Mongolia.

### **Construction of Highway Starts in Guangdong**

OW2807143292 Beijing XINHUA in English  
1348 GMT 28 Jul 92

[Text] Shenzhen, July 28 (XINHUA)—Construction of a highway started today which will connect Shenzhen Special Economic Zone, Huizhou City and the Daya Bay development zone in south China's Guangdong Province.

Drawing an investment of 100 million yuan (17.2 million U.S. dollars) from the Zhongqiao Investment Company in the Huiyang County, the 20.8-km highway is planned to open in August next year.

The highway is expected to improve the investment environment of the Huiyang County and the Daya Bay developing zone, where there is a nuclear power station, foreign-funded automobile plant and petroleum refinery.

Along the highway the Zhongqiao Investment Company plans to build a 300,000-square-meter high-tech complex and a 1,000-square-meter estate with light industrial, commercial, residential and entertainment facilities.

### **Construction Begins on Guangtong-Dali Railway Line**

OW0907141392 Beijing XINHUA in English  
1325 GMT 9 Jul 92

[Text] Kunming, July 9 (XINHUA)—Work started today on the Guangtong-Dali railway line, the first in the western part of southwestern China's Yunnan Province.

The line will be 213 km long and will connect with the Chengdu-Kunming line at Guangtong. It will pass through more than 50 counties and cities in eight prefectures in Yunnan.

An official from the Ministry of Railways said that the line will cost 850 million yuan. It is estimated that it will be open to traffic in October 1995.

He said the annual freight transportation capacity will reach 2 million tons within two years after the railway is completed and will rise to 6 million tons within 10 years.

The official said that the completion of the Guangtong-Dali railway link will be a preparation for building a Yunnan-Tibet railway line and a Chinese railway connection with the railway networks in southeast and south Asia.

### **Linxi Railway Line Under Construction**

SK2407112592 Hohhot NEIMENGGU RIBAO  
in Chinese 12 Jun 92 p 2

[Text] The Linxi section of Jining-Tongliao Railway Line started construction in May 1991. All areas of construction have progressed as planned. The roadbed



construction project ranked first in the construction quality appraisal test by the Inner Mongolia local railway corporation. The Linxi section of Jining-Tongliao Railway Line is 38.8 km long. This section involves 128 culverts and a bridge. Some 2.209 million cubic meters of earth and stone were used to lay the roadbeds of this section, and some 426,000 cubic meters of earth and stone were used to build the station.

## AGRICULTURE

### Hainan Agricultural Development Strategy

92CE0579A Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese No 6,  
20 Jun 92 pp 11-14

[Article by Chen Suhou (7115 5685 0624), vice governor of Hainan Province: "Thoughts on Hainan's Agricultural Development Strategy"]

[Text] Agriculture holds a crucial position in the economic development of the Hainan Special Economic Zone [SEZ], being a matter of overall importance to Hainan's economic and social development, as only its sustained and steady development can provide a reliable basis for our SEZ economy. Since Hainan was turned into a province and an SEZ, the provincial party committee and government have conscientiously implemented a policy of "laying the foundation, applying policies, emphasizing implementation, and striving for efficiency," which has made development of agricultural production a crucial part of our SEZ economic development, broken us free in one blow from our grain production fluctuation, and achieved three consecutive years of bumper harvests. In the three years from 1989 to 1991, grain output increased by 1.2 billion jin, and sugarcane, tropical crops, livestock, and aquatic product outputs all increased to varying degrees. By 1991, our gross value of agricultural output [GVAO] had reached 6.48 billion yuan. Rural living standards have risen steadily, with a number of impoverished villages having cast off their poverty.

But it should be pointed out that Hainan's agricultural development is still out of line with the development of our SEZ economy, with the most glaring problems being as follows: 1. Our agricultural production development is uneven, so that poverty still exists on a fairly wide scale. 2. Our agricultural infrastructure is weak, our multipurpose production capabilities are poor, our stamina is inadequate, and our production technology is outdated, so that our per unit area yields are low and our economic efficiency is poor. 3. Our blocked agricultural product circulation has dampened our peasant production initiative. 4. The advantages of Hainan's tropical crops and marine resources have not been brought into full play, so that our agricultural processing is backward and our agricultural export earnings are low. Based on the spirit of the Eighth Plenary Session of the 13th CPC Central Committee and the strategic agricultural development objectives set by the provincial party committee and

government for the Eighth Five-Year Plan, the guiding ideology for Hainan's future agricultural development should be: To bring Hainan's advantages into full play and make a more rational use of our agricultural resources, by doing a good job of multipurpose agricultural development; to build a more efficient agricultural infrastructure; to expand our grain production in a steady and sustained way, while vigorously developing our tropical crops and exploiting our marine resources, by going all out to develop a diversified economy; to improve our agricultural socialized service system to further stimulate our agricultural product circulation, and gradually establish a high-quality, high-yield, efficient, externally-oriented, and export-earning modernized agricultural system.

### I. We Will Establish an Overall Agricultural Strategy, by Adjusting Our Agricultural Structure

Adjustment of our agricultural production structure will include adjustment of both its industrial structure and product mix. The purpose of adjusting our agricultural production structure is to put our agricultural resources to better use, optimize the composition of our key production elements, and finally achieve the goal of more output with less input. The key to this will be an organic combination of planning with markets, with the right combination of planned control and market regulation.

While the industrial structure of Hainan's agriculture has improved greatly in recent years through constant adjustment, it has still not broken free from its traditional single-purpose agricultural order, so remains out of line with the needs of SEZ development. The makeup of our 1990 GVAO (based on 1990 prices) was 40 percent farming, less than 20 percent livestock raising, and only 10 percent fishery. As to our farming output value, cash crops made up only 26.6 percent, while feed crops were almost a blank. In our 1.37 billion yuan livestock industry output value, hogs accounted for almost 60 percent, but poultry raising only 20 percent. Aquatics products breeding, particularly marine breeding, has developed very slowly. As such an agricultural production structure is unable to bring the advantages of Hainan's agricultural resources into full play, we need to establish an overall agricultural strategy, by rationally adjusting our agricultural production structure.

As to farming, in light of the fact that Hainan is still not self-sufficient in grain, grain production is and will remain for some time a crucial factor, we should base our efforts on stabilizing our grain-producing area, directing our main attack at increasing per unit area yields, and ensuring a steady increase in grain output, and then go on to increase our production of cash and feed crops in a planned way. We must fully develop and exploit our land and other spaces, by deploying farming and forestry crops of diverse levels and varieties, filling up the ecological gaps in our past single-variety biocommunity,

introducing the right mix of new varieties, and raising our multipurpose land production capacity.

We must gradually develop a solid agricultural strategy for the overall development of farming, forestry, livestock raising, sideline production, and fishery. Based on farming stability, we should steadily expand our forestry, livestock raising, sideline production, and fishery, by fully exploiting our mountainous areas, grasslands, and waters to expand our forestry, livestock raising, and fishery. Mountain areas need to vigorously develop mountain resources, rely on them for getting wealthy, focus on farming and breeding to promote the development of all sectors, and emphasize the in-depth processing of forestry products to raise efficiency. As to livestock raising, we must maintain a stable hog output, while sharply expanding our raising of other herbivorous, grain-conserving, and efficient livestock, such as cows, sheep, chickens, ducks, and geese. In our aquatic products industry, we must make the following two major developments: 1. We must continue to replace and upgrade our fishing fleet, by expanding its mid-and deep-sea operations, and by steadily developing our fishing grounds in the "four South China Seas" in particular to increase our high-quality fish output. 2. We must fully develop our marine and freshwater resources, by expanding our aquatics breeding industry. Hainan has a freshwater area of 590,000 mu, of which 550,000 mu are mountain-dam reservoirs, where we need to vigorously develop net and box fish breeding. As we have an even greater potential for marine aquatics breeding, we should increase our cultivation of algae and shellfish, in addition to conducting certain deeper level development studies and experiments.

The adjustment of industrial structure in Hainan's reclamation areas must be market-oriented and focused on increased efficiency. In addition to making new rubber industry advances, reclamation areas must conscientiously emphasize grain production, develop agricultural commodity production bases in line with local conditions, and develop tracts of land for diversified economy crops, such as tea, sugarcane, coconuts, sisal hemp, coffee, fruit, and winter melons and vegetables. We must actively popularize our successful experience in interplanting tea with rubber to make full use of rubber tree timber resources in reclamation areas, and to build a rubber tree lumber industry of many varieties with distinct reclamation area characteristics. We must develop externally-oriented and export-earning agriculture in a planned way.

## **II. We Will Build a Better Agricultural Infrastructure To Enhance Our Agricultural Stamina**

Historical factors have left Hainan with a poor agricultural infrastructure with little stamina. As this is one of the major weaknesses in Hainan's agriculture, we must conscientiously invest more in infrastructure improvements to enhance our agricultural stamina.

*1. We must emphasize capital construction of irrigation and water conservancy projects.* The building of water conservancy projects is a matter of lasting and vital importance to the running of the country. As our poor irrigation and water conservancy infrastructure and deficient disaster-combat capability have become major obstacles to the development of Hainan's agricultural production, we must pay them a great deal of attention. When planning irrigation and water conservancy capital construction projects, we must broaden our development horizons based on the need for overall development of the rural economy, by changing from simply peasant construction of water conservancy works to support and participation by the whole society, through shifting our water conservancy emphasis from grain production alone to the strengthening of our diversified economy and development of tropical crops, and by expanding our water conservancy construction focus from a purely winter-time rush job to a consistent year-long effort. We must make particular efforts to improve our water pipelines to bring our water conservancy works efficiency into full play. Along with emphasizing the building of water conservancy works, we must pay attention to upgrading our medium-and low-yield fields. We must make overall plans and implement them uniformly, by linking developments and tackling in a comprehensive way problems concerning mountains, rivers, farmland, forests, and roads. We must use most of our investments in areas, such as multipurpose agricultural development projects, grain as a form of relief, the establishment of commodity grain bases, and the provision of special food subsidies, to upgrade our mid- and low-yield fields, and to turn the farmland throughout Hainan by stages and in groups into cultivated land on which we can ensure high and stable yields despite drought or excessive rain.

*2. We should stress the establishment of improved variety bases.* We should set up a number of high-standard seed-breeding fields, where we can do a good job of developing hybrid rice and corn, so that we can become self-sufficient in improved varieties. We should conscientiously build up our southern propagation bases, by establishing a number of related seed depositories and grain-drying farms, and by purchasing instruments and equipment, such as seed selectors to provide high-quality service for the breeding of improved varieties throughout China. Meanwhile, we must actively build up our livestock-, poultry-, and fish-breeding farms and stations to popularize artificial propagation.

*3. We must do a good job of fertilizer plant capital construction.* We should focus on both inorganic and organic fertilizers. We must continue to run our existing small chemical fertilizer plants well, while using our natural gas at Yinggehai to set up a chemical fertilizer plant with an annual output of 300,000 tons of synthetic ammonia and 520,000 tons of urea to reverse the severe shortage of chemical fertilizers. Meanwhile, we must thoroughly arouse the masses to store up large amounts of farmyard manure, vigorously develop the combined

and special use of green manure, and popularize the ploughing back into the soil of rice straw to steadily expand our input of organic fertilizer.

4. *We must improve our fishery infrastructure.* To adapt to fishery development needs, we must focus on building up our fishing ports. During the Eighth Five-Year Plan, we will continue to build up our eight major fishing ports at Sanya, Qingrun, Xincun, Tanmen, Basuo, Xinying, Haiwei, and Baimajing. Meanwhile, we will give priority to the building of a number of plants for in-depth and precision processing of aquatic products to speed up our fishery production development.

### III. We Will Exploit Hainan's Advantages To Develop Externally-Oriented Agriculture

To develop externally-oriented agriculture, Hainan needs to establish a strategy of "focused opening up and faster development," by correctly handling the relations between domestic and international markets. Our current guiding policy should be to base our efforts on the domestic market, by laying a solid foundation, while setting our sights on the international market, by taking active steps to break into the international market to increase our exports and export earnings. We must bring our local resource advantages into full play, by developing competitive and marketable hot-selling products. We should focus on the development of tropical fruits, such as early-ripe litchis, Thai longans, carambolas, red maodans, mangoes, bananas, and winter seedless watermelons. We also have a large number of cash crops, such as rubber, coconuts, cashews, and betel nuts, as well as marine products, such as groupers, all of which are brand-name, quality products with distinct Hainan characteristics and great development potential. Just as in our development of a series of coconut products, we can develop a series of these products that will be hot-sellers on both domestic and foreign markets.

To develop externally-oriented agriculture, we will have to set up externally-oriented bases for the production and processing of agricultural sideline products. Some traditional products suffer from obsolete production modes and long growing periods, so have high costs, while other varieties are outdated and of poor quality, so are not market competitive. To establish externally-oriented production and processing bases, we will have to steadily improve our research, improved variety propagation, and cultivation techniques, while increasing our supplies of capital goods, such as feeds, seeds, seedlings, and equipment, and strengthening weak links in areas, such as product freshness, packing, storage, processing, shipping, and sales, as follows: 1. We must take active steps to attract investment and import technology to multipurpose agricultural development experimental zones to adjust our cultivation and propagation structures, by replacing space-taking and low output value crops with diversified cash and garden crops, replacing dispersed, piecemeal, and extensive breeding with space-saving barn-fed livestock and poultry raising, and speeding up our development of tertiary industries and

export-earning agriculture through developing "scenic agriculture" and "field and garden agriculture." In particular, we must buy and import primary agricultural sideline products to development zones, such as Shiziling, where we will set up manufacturing industries to form a highly specialized externally-oriented production system. 2. We must develop lateral ties at many levels and of diverse forms to form externally-oriented production systems for certain products, and develop larger-scale commodity production based on household management. We must form specialized production and complete socialized service systems, all the way from pre-production market information, research, improved variety propagation, and capital goods supply, through ongoing production technical guidance in epidemic prevention and disease control, to post-production product procurement, freshness guarantee, processing, packing, and sales. 3. We must bring development of winter agriculture into line with our building of commodity bases. While our peasants have shown great initiative in developing idle winter fields in recent years, so that we have made much winter agriculture progress, there is still a large potential for further development. We must sharply expand our winter agriculture, by constantly increasing and pioneering new varieties and improving quality to become more competitive. In addition, we must consolidate and improve our specialized corporations' existing foreign trade commodity bases to bring the role of state-owned and collective farms, forestry centers, livestock farms, fisheries, aquatics breeders, and research institutes into full play. We must take a new path that is premised on a more rational use of our resources, market-oriented, focused on higher efficiency, well based and backed up, makes breakthroughs with brand-name, quality, and specialty products, depends closely on S&T advances, makes a coordinated process of production, supply, and marketing, and develops commercialized and export-earning agriculture. This will enable us to effectively exploit and utilize our potential resource advantages.

### IV. We Will Continue To Focus on Agricultural Revitalization Through S&T and Education To Upgrade Farming Technology

Building and perfecting our agrotechnology popularization service system will be the organizational guarantee for popularizing agricultural S&T achievements and expanding our agricultural socialized service system. Due to our current severe shortage of funds, our township agrotechnology and livestock veterinary stations and county technological popularization centers are all in poor shape, and even the research equipment in our provincial agroscience academy and municipal and county agroscience institutes is also very low-tech and out of date. Such poor working conditions and living standards have a direct impact on all of our efforts to revitalize agriculture through S&T. Our most pressing task is to raise funds from all areas, by forming new S&T input forces of the right amount of government allocation and guidance along with fundraising by individual units and all parties throughout society, so that we can

gradually improve the working conditions and living standards of our scientists and technicians, shore up our institutions, replace our equipment, and ensure that agriculture is truly revitalized through S&T. We must shift our guiding ideology from a dependence on material and labor input to a reliance on S&T. Meanwhile, we must reform and develop our rural education to improve our peasants' literacy and S&T skills. We must run our provincial agricultural academy well, while continuing to do a good job of holding all types of specialized training classes, and using all means to ensure that our rural grass-roots cadres and a large number of peasants acquire a certain amount of agrosience knowledge and skills to bring their role in revitalizing agriculture through S&T into full play.

#### **V. We Will Stimulate Agricultural Product Circulation To Speed Up Agricultural Production Development**

The problem that our peasants are now most concerned about and express the most dissatisfaction over is their buying and selling difficulties. The major cause of this problem is our lack of stable and organic links between production and marketing, which is related to our long-standing product economy emphasis on production at the expense of circulation. We will emphasize the following immediate priority tasks in this area:

**1. We will take active steps to make a coordinated process of production, supply, and marketing, by systematizing our service system.** This reorganization will better organize peasants, provide lateral or vertical production, management, and processing links for our vast numbers of dispersed households practicing the responsibility system of linking remuneration to output, arrange product production in a planned and organized way according to social needs, and reduce the risk of soft markets, while also providing stable raw material resources for industrial and commercial enterprises and markets, and being an effective way to tie production to marketing, stabilize production, ensure supply, and bring decentralized peasant economic activities into line with a planned commodity economy. All concerned sectors must regard this reorganization of production,

supply, and marketing into a coordinated process as a key aspect of service to agriculture and a crucial departmental priority for deepening of reform.

**2. We will gradually develop wholesale markets for agricultural products.** We will organize and develop in a planned way wholesale markets in urban marketing areas to provide urban arenas for the marketing of agricultural products, while taking active steps to develop wholesale markets in producing areas and at agricultural product distribution centers to organize peasants for wholesale trade. We will gradually set up a number of primary urban and county wholesale markets to gradually form a new circulation order that is supported by agricultural sideline product production and processing bases, headed up by specialized wholesale markets, backed up by state-owned and collective commercial organizations, dominated by specialized service companies run by township collectives, and complemented by individuals and coalitions.

**3. We will practice diversified circulation.** We will continue to develop an open circulation network with diversified components, channels, and modes of operation in the following ways: 1. We will bring the dominant role of state-owned commerce, foreign trade, and supply and marketing cooperatives into full play. 2. We will provide active support to new coalitions and cooperative organizations that have appeared since reform, which combine production, supply, and marketing, and make a coordinated process of agriculture, industry, technology, and trade. 3. We will further encourage and guide peasants to enter the field of circulation. As to peasants and peasant coalitions entering the field of circulation, we should provide active support to ensure their legal operations, and as to existing operating problems, we should enhance our education and control to promote sound development.

**4. We will build a better circulation infrastructure.** We will mobilize all circulation participants to help develop our warehouse, cold storage, shipping, and processing infrastructures, while putting the building of a better circulation infrastructure on the capital construction agendas of governments at all levels.

## High School Students Personality Development Surveyed

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[Excerpts] I. Introduction

[passage omitted] The survey included seven major areas: 1. understanding of the relationship between the individual and society; 2. sense of social responsibility; 3. value placed on social conduct; 4. intent to become self-reliant; 5. conviviality; 6. professional goals; and 7. various factors that affect the development of high school students' thinking and behavior. Although the development of self-awareness and sexual awareness occupy important roles in the development of socialization, our research did not deal with them because there are many research articles on these two issues.

The survey was conducted in three high schools in the Taizhou region. One was a rural high school, one was an urban high school in an area with a fairly developed commodity economy, and one was an urban high school in an economically underdeveloped area. At each school, a certain number of classes from the first year of junior high to the third year of senior high were chosen. A total of 2,140 students were surveyed, including 427 in the first year of junior high, 333 in the second year of junior high, 348 in the third year of junior high, 312 in the first year of senior high, 314 in the second year of senior high and 406 in the third year of senior high. Divided by sex, there were 1,221 male students and 919 female students. The survey was conducted by grade level at a uniformly designated time, with one teacher presiding over each grade level. No consultation or discussion was allowed when completing the survey, and they were requested to respond based on their true thinking and actual circumstances. To dispel misgivings, the respondents' names were not written on the response sheets.

## II. Results and Analysis

### (A) High school students' understanding of the relationship between the individual and society

Developing a level of social awareness is the primary prerequisite for understanding society and participating in social life. We surveyed three aspects of high school students' level of social awareness: "understanding of the interdependent relationship between people and society," "understanding of the relationship between social progress and individual happiness" and "understanding of social norms." The survey results showed the following:

1. Of high school students, 67.89 percent believe that "outside of society, people cannot live a true human life," and have a proper level of understanding. In addition, from the first year of junior high to the second year of senior high, the number of people with the correct viewpoint basically increases, then decreases somewhat at the third year of senior high, but still

remains as high as the percentage of all students combined; and 10.04 percent believe that "outside of society, people can live as they do, with the exception of a few more difficulties." Only 2.89 percent were puzzled by the question and felt that they could not say for certain. But what should not be overlooked is that 19.6 percent also believe that "outside of society, people have more freedom and liberty, and life is more unencumbered." Looking at the trend, the second year of junior high and the second year of senior high show a decline of 12.61 percent and 12.73 percent respectively, but in the third year of junior high and the third year of senior high, it rises again by 25.28 percent and 18.22 percent respectively. This problem is not purely a matter of a setback in understanding. Rather, students in the third year of junior high and the third year of senior high are faced with graduation and are at the crossroads of going on to a higher level of schooling, finding employment and seeking opportunity. Faced with the complex phenomena of society, they become perplexed and their mood becomes negative and depressed, which is reflected in their desire for nonconformity.

2. Of high school students, 46.12 percent believe that "only with social progress and development can people be happy, and voluntarily contributing to the quest for social progress actually contributes to one's own happiness and effort." Only 4.15 percent of high school students approve of the view that social progress and individual happiness are contradictory, and believe that "there is no necessary relationship between individual happiness and social progress, and emphasizing contributions to society inevitable means considerable self-sacrifice, and if all personal benefit is sacrificed, there is no more to say about individual happiness." Another 44.01 percent of high school students agree with the view that "society is made up of individuals, and each person can struggle for individual happiness, which naturally propels social development. Therefore individual struggle is the source of happiness as well as the driving force of social development." Of first year junior high students 57.61 percent, agree with this view, and 33.74 percent of third year senior high students also admire this argument. This shows that the influence of the humanistic philosophy of Western individualism on high school students cannot be overlooked.

3. Of high school students, 77.94 percent recognize that "social norms are established for the benefit of society as a whole, and each member of society must comply with them. No society can do without social norms." The number of first year junior high students with this correct understanding is already 68.14 percent. This shows that in recent years, China's schools have been highly effective in strengthening legal education and carrying out education in everyday behavioral norms among primary and secondary school students; 14.57 percent of high school students have a rather confused understanding of social norms, and believe that "even though social norms are currently necessary, once social development reaches a certain level, they will disappear



by themselves." Another 4.29 percent of high school students believe that "social norms always restrict individual freedom, and only by breaking through the fetters of social norms can a person be independent and distinct." Even though the number is small, one can infer how dangerous this kind of viewpoint is.

It is clear from the above information that on the whole, China's high school students have a relatively high level of understanding of the relationship between the individual and society. But there are also some problems that should arouse profound concern. As for the development situation, the first and second years of junior high and the first and second years of senior high are the key periods in which the number of people with the correct understanding increases sharply and the number of people with a confused understanding suddenly drops. For example, those who believe in "voluntary compliance with social norms" account for 68.14 percent in the first year of junior high, soaring to 74.47 percent in the second year of junior high; there are 67.62 percent in the first year of senior high, soaring to 80.25 percent in the second year of senior high. Those who "do not understand social norms" account for 17.35 percent in the first year of junior high, decreasing to 7.80 percent in the second year of junior high. In the first year of senior high, they account for 7.37 percent, decreasing to 3.82 percent in the second year of senior high. This shows that the citizenship classes that begin in the first year of junior high and the classes on the scientific approach to life that begin in the first year of senior high have a very clear effect on raising students' level of social understanding.

#### (B) High school students' sense of social responsibility

We addressed four items in our survey: "students' understanding of their basic responsibilities," "emotional experiences with failure in school," "attitudes toward unhealthy tendencies that arise within the class" and "amount of attention paid to individual and social interests."

##### 1. Understanding of students' basic responsibilities

We investigated this issue by surveying high school students on their understanding of accepting the nine-year compulsory education system. Of high school students, 49.81 percent recognize that "accepting the nine-year compulsory education system is the students' bounden obligation and responsibility to society and the nation. Society has created the opportunity for each student to get an education, and students should study hard, impose rigorous demands on themselves and be good students." Of first year senior high students, 59.95 percent chose this response, but only 39.16 percent of third year senior high students did. An even greater number of students (55.81 percent) believe that "going to school to get an education can enable one to develop morally, intellectually and physically, cultivate intelligence and creativity, and strengthen one's ability to compete in society, and toward this end we should study

hard." Of third year senior high students, 62.80 percent hold this view, which shows that many senior high students recognize that studying is the primary means by which to realize an individual's potential and value to society. At the same time, this reflects the fact that today's high school students have relatively strong self-awareness and competitive consciousness. In addition, 22.33 percent of students believe that "sending us to school to study is how our parents raise us, and our parents work so hard to raise us that if we don't study hard, we will let our parents down." This accounts for a considerable proportion. Also, a very small number of students believe that "studying is a student's own business, and whether or not one studies hard depends on whether or not one is interested in studying, and you can't begin to talk about responsibility to others or whether or not one is letting others down"; or they believe that "I know that during the period of compulsory education, schools cannot expel students. Therefore, not studying hard doesn't matter"; or they simply acknowledge that "I don't know the reason for going to school."

##### 2. Emotional experiences with failure in school

This item surveyed students' emotional experiences when they have not yet taken on social obligations to indirectly reflect students' sense of social responsibility. The survey results show that many students feel "ashamed," and fall under two types of circumstances: The first kind is "being ashamed at oneself for not fulfilling a student's basic duty" (35.40 percent). The second kind is "letting one's parents down and failing to live up to their expectations" (45.98 percent). Some students are "anxious" or "worried that they won't graduate or go on to a higher level of schooling" (9.29 percent) or are afraid that "the teacher will criticize them and their classmates will look down on them" (7.80 percent). A small number of students are "weary" and believe that they "are not the studying type, and that it is best to leave school and not suffer any longer" (3.27 percent). Certain students are "indifferent" and believe that "if you don't do well in school, you can still make a lot of money anyway, and if you do well in school, it doesn't make any difference" (1.16 percent).

The above question was based on the recognition that among the students surveyed who have a sense of responsibility about their studies, a rather large number would give the correct response. This question was based on emotional experiences that reveal students' sense of responsibility about their studies. Just over two-thirds of the students do not actually consider studying to be an issue of responsibility toward their parents or themselves. This shows that there is still a gap between understanding and emotion.

##### 3. Attitudes toward unhealthy tendencies that arise within the class

Suppose that a situation arises within the class in which classmates fight and come to blows. The question asked:

What do you think is the most sensible way to deal with this; 63.08 percent of students responded: "Strive to make peace, determine the cause and effect, and maintain an impartial stance." This shows that many high school students can show concern for the collective interest and protect public order; 13.13 percent of high school students advocate "immediately report it to the teacher so the teacher will handle it." This reflects that these students lack initiative and are quite dependent; 13.27 percent of high school students believe: "As long as talk and persuasion put an end to the fighting, it's fine, and it's unnecessary to determine blame. One hand cannot clap by itself, and they are all to blame anyway." This approach glosses over things to patch up the situation. It should be pointed out that 27.09 percent of third year senior high students have this kind of attitude. This shows that these students have not matured along with their increase in age, and have become calculating. Another 8.22 percent of high school students adopt a policy of "keeping a distance to avoid being drawn into the storm." This kind of calculating, play-it-safe attitude shows a lack of collective responsibility.

4. As for the level of attention paid to individual and social interests, high school students ranked the most intolerable things according to the level of their resentment. Whether male or female, they all ranked as the most intolerable thing the violation of individual interests and insult to personal integrity. This shows that today's high school students have a very strong sense of pride, and also attach great importance to the individual's legal rights. In contrast, things that seriously harm society's interests, such as "corruption and bribe-taking, and undermining party practices" received a very inadequate amount of attention. If the percentage figures for male and females are compared, one discovers that female students pay more attention to matters of individual interest than do male students, and male students pay more attention to matters involving the interests of others or of society. [passage omitted]

The survey figures reveal that the number of people who pay attention to individual interests decreases considerably from the first to second year of junior high. But from the second year of junior high to the third year of senior high, there is a steep rise. The number of people who pay attention to social interests is also rather small, and even though it continues to decrease between the first and second years of junior high, and from the second year of junior high to the second year of senior high, it increases slightly every year, then in the third year of senior high it drops sharply to only 12.06 percent. This is, of course, not the kind of situation that educators had hoped for.

#### (C) High school students' values regarding social conduct

Values are people's views on how and when objective reality benefits them, or the key to how they evaluate and make choices. They help direct an individual's thinking and behavior toward a definite goal and direction. Studying high school students' values means studying

the values behind their thinking and behavior. People's values are multi-layered ideological systems, and to conduct this survey we selected only the four aspects that are most closely related to people's social conduct.

#### 1. High school students' acceptance or rejection of the traditional outlook

We listed 18 traditional virtues, and asked them to select the five that they admire most. Then these were ranked according to comparative percentages. The survey results show that the traditional virtues that high school students admire most are, in order, "filial piety," "respect for the old and love for the young" and "respect for teachers." Males and females were the same. This shows that China's morality-centered traditional education still has a significant influence on high school students. This contrasts with "seeking the truth and sparing no sacrifice," "the world's troubles come first, think of your own happiness later" and other lofty traditional virtues, which have not remotely penetrated the public mind to any extent.

#### 2. High school students' values regarding interpersonal relations

All human social activity is inseparable from interpersonal contact. The understanding of and attitude toward one's relationships ultimately determines the tendencies in a person's social behavior, and reflects a person's outlook on life. We surveyed high school students on which maxims they believe in, to understand the value that they place on interpersonal relations. In the survey results, 43.26 percent of high school students agreed with "one for all, all for one," and accepted the collectivist ethical concept that individual interests are congruent with collective interests. Such selfless ethical concepts as "no benefit to myself, only benefit to others" was held in high regard by only 17.14 percent of high school students. This shows that this kind of progressive ethical requirement cannot be widely accepted by high school students. The great majority of high school students reject such selfish, self-centered and egotistical ethical concepts as "each person should sweep the snow in front of one's own door and not mind the frost on other people's roofs," and "everyone for oneself, and God for everyone." It should be emphasized that 35.74 percent of high school students believe that "one can know a person's face but not a person's heart; the only way to prevent harm to one's heart is to protect the heart." This reflects that quite a few high school students lack a sense of security about mutual trust.

#### 3. High school students' values regarding attitudes toward social conduct

High school students have seen little of life, and strictly speaking, have not truly embarked on the journey of life. But under the influence of various social factors, they have already considered how they will spend their lives in the future. In the survey, 47.71 percent of high school students believe that life should be "a fight for progress to benefit society," and 30.42 percent of high school

students admire the approach to living of "be a pure person and work diligently," which added together total 78.13 percent. This figure shows that the great majority of high school students are positive or basically positive in their philosophy of life; 10.84 percent of students strongly admire the world-renouncing attitude of "be content with your lot, be happy and have no quarrel with life," and 5.56 percent of high school students admire the hedonist attitude of "urgently seek pleasure so the journey is not in vain." Another 3.41 percent of students go so far as to adopt the wild and preposterous attitude of "don't leave a good reputation for posterity, go down in history in infamy."

#### 4. High school students' values regarding seeking goals

We summarized high school students' life goals into the following categories:

The professional model: Studying, striving for outstanding achievement in work, and being satisfied with a tolerable lifestyle.

The double-faceted model: Studying and working as hard as possible, and heartily indulging in the joy of living.

The golden mean model: Better to live a slightly easier, freer life, and be satisfied with a tolerable lifestyle.

The hedonistic model: Lightening up on study and work, and having a more comfortable, abundant lifestyle.

[passage omitted] Even though 21.02 percent of students belong to the "hedonist model," 44.57 percent of students are ultimately in the "professional model." The number of students in the "professional model" increases from 52.69 percent in the first year of junior high to 54.05 percent in the second year of junior high, then steadily deteriorates until a steep drop to 30 percent in the third year of senior high. The number of students in the "hedonist model" also decreases from 19.90 percent in the first year of junior high to 16.95 percent in the third year of junior high, and increases sharply after that, jumping to 27.09 percent in the third year of senior high. The number of students with these two kinds of diametrically opposed life values are almost "of equal strength."

#### (D) High school students' intent to become self-reliant

The development of high school students' independence increases their sense of self-reliance. Developing a sense of self-reliance is an important foundation in students' entry into society and the social role they play. We used the following four aspects to investigate students' self-reliance from different angles.

#### 1. High school students' understanding of the standards of "growing into adulthood" (they could select two items)

Of high school students, 47.80 percent correctly understand that "the ability to assume social responsibility

and take responsibility for one's own behavior" is the primary indicator of "growing into adulthood." Of high school students, 43.03 percent believe in "being financially independent and no longer relying on one's parents," and most aim to be independent members of the household. Of high school students, 4.90 percent believe that "falling in love and getting married" is a further indicator of "growing into adulthood." It is worth mentioning that 18.59 percent of high school students have not yet thought about this question, and 14.53 percent of third year senior high students have not thought about it.

#### 2. High school students' responses about what gaining a foothold in society depends on

The survey results show that 78.31 percent of high school students understand that gaining a foothold in society depends primarily on one's own "true abilities and work ethic." But 15 percent of students believe that the basis of a foothold in society is parental influence and social connections, luck and opportunity. In terms of the development situation, the former shows a downward trend from the first year of junior high to the third year of high school, while the latter increases sharply from 5.6 percent in the first year of junior high to 23.2 percent in the third year of senior high. On the one hand, this reflects third year senior high students' deepened understanding of society's true complexities, and on the other hand it also shows that society's negative factors cast a shadow on high school students' hearts.

#### 3. High school students' ideological preparation for entering the adult world

The survey results show that 45 percent of high school students hope to "grow up quickly, enter the adult world soon and use creative effort to realize their own potential." Of high school students, 24.48 percent look forward to "soon becoming financially independent, and repaying the debt of gratitude to their parents for raising them." Another 8.78 percent of high school students yearn to "search high and low for their own paradise." Adding together these three, 78.44 percent of high school students yearn to enter the adult world soon, despite the great disparities in their levels of ambition. A total of 22.37 percent of students hope to "prolong their student days and enjoy more of the warm, fragrant and colorful schoolyard life," "always live by their parents' side and be cared for by their parents as well as care for their parents" and naively fantasize that they "will never grow up, and will always live a carefree child's life under their parents' love and care." What provides food for thought is that 51.99 percent of first year junior high students, who have just moved beyond childhood, hope to enter adult society soon and realize their potential soon. Only 5.38 percent fantasize that they will remain in their childhood years, and 5.85 percent are reluctant to leave school life. This is one manifestation of the rapid maturation of junior high students in their early youth. Exactly to the contrary, only 31.52 percent of third year senior high students, who are about to enter their late youth and are faced with real post-graduation choices,

hope to enter the adult world soon and realize their own potential soon; 7.63 percent instead fantasize about remaining in their childhood years and 13.54 percent are reluctant to leave school life. This is a manifestation of "delayed socialization mentality," and reflects an expectation on the part of some of today's youth that they can postpone assuming social responsibilities and postpone supporting themselves. This phenomenon is also reflected in high school students' thinking about their future prospects.

#### 4. High school students' attitudes in considering their future prospects

Of high school students, 80.13 percent are extremely optimistic about their own future and are full of self-confidence. This is the main trend; 16.74 percent of third year senior high students feel uncertain about their own future prospects and 7.38 percent trust that with luck, "the boat will straighten out when it comes to the bridge and things will take their own course"; 6.15 percent are "full of anxiety and see no opportunities for the future." This clearly shows that anxiety is common among graduating third year senior high students.

#### (E) High school students' conviviality

##### 1. High school students' emotional experiences with solitude

Do today's high school students like to be part of certain groups or do they like to be alone? The survey results show that 24.48 percent of high school students feel "comfortable and satisfied" being alone (that is, they enjoy solitude and don't enjoy the company of others). 61.67 percent of high school students enjoy the company of others. When they are away from their friends and the group, or are "solitary and alone" or "lonesome and depressed," they feel an intense loneliness and loss; 12.71 percent of students feel no different when they are alone. Some of them may be very adaptable and have strong psychological qualities, and therefore their conviviality cannot be denied. In short, Chinese students generally like to get along with others and like living a collective life.

##### 2. High school students' standards for choosing friends

According to the statistics, 53.73 percent of high school students like to associate with friends who "have similar aspirations and interests, and whose strengths will offset their weaknesses." They stress commonality of thinking, emotional compatibility and being on an equal footing so that there can be mutual benefit and cooperation; 18.17 percent of high school students like to associate with friends who "are experienced and capable, who can help them overcome problems and who ordinarily care for and have concern for them." They hope that their friends are stronger than they are, and will help them. Together, these two groups account for 77.90 percent of students, which shows that many students seek healthy friendships of the comradely, mutually beneficial, true fondness variety; 8.08 percent of high school students

like to associate with "people who will stand by them at all times and who are absolutely loyal to friends," and 6.86 percent of students like to associate with "people with whom they can talk about anything and who can keep a secret for them about anything" and care about "brotherhood." Another 7 percent of students choose their friends according to the so-called "amusement model." They like friends who "spend leisure time with them, and bring happiness."

##### 3. High school students' attitudes toward cooperation

Of high school students, 58.31 percent believe that when they do certain things with other people, it is often "cooperation from start to finish, and always wanting to do an even better job together"; 18.13 percent believe that "working with good friends is relatively easy, but working with strangers is extremely difficult," and 23.36 percent believe that "responsibilities are clear when working alone, and one can better develop creativity, so it is better to work alone." Adding in the people who advocate "division of labor, each person taking care of their own and not interfering with others" (in reality, working alone), the total is 26.91 percent. In terms of development, far fewer third year senior high students welcome cooperation than first year junior high students, and the number who refuse to cooperate exceeds that in the first year of junior high. Can this be considered a decline in conviviality?

##### 4. How high school students deal with difficulties

From high school students' attitudes and responses when faced with difficulties, it can be seen whether or not they are good at calling on other people's wisdom and energy to help them resolve difficult problems.

In addition, according to the statistics, 65.45 percent of junior high students and 44 percent of senior high students are able to make it known immediately when they run into difficulties with studies, work or life, and can modestly ask for advice and get help; 7.3 percent of junior high students and 17.6 percent of senior high students, including 22.90 percent of third year senior high students, are hindered by a concern for saving face; 25.5 percent of junior high students and 36.2 percent of senior high students "share their innermost thoughts with close friends for psychological comfort." [passage omitted] Junior high students' ability to solve problems on their own is not so different from that of senior high students, and this makes very clear that high school students in their youthful years are still tightly closed psychologically, and as their knowledge increases and their experiences become more complex, their difficulties and frustrations increase day by day and their conflicts with their parents and other people also increase steadily. They have self-esteem as well as a feeling of inferiority, and some problems they cannot solve on their own, and they seek help from others while fearing that they will lose face. As a result, they do not expect others to help them solve problems, and only hope that they can get psychological comfort from a few

close friends to achieve mental equilibrium. This is a rather passive approach to handling things.

#### (F) High school students' professional goals

Employment is an important key to linking individuals with society. Occupational roles occupy a key position among various roles and identities. Young people can only truly join adult society through their own choices and through the profession they engage in. From this standpoint, one of the basic functions of schooling is helping students to foster professional consciousness to properly select a profession according to objective criteria and to make full preparations in all areas to begin employment. Our study proceeded from the three areas of high school students' understanding of mental preparation for employment, high school students' values regarding choosing a profession, and high school students' ideal professions.

##### 1. The state of high school students' understanding of and preparation for employment

According to the survey statistics, 62 percent of high school students have a correct understanding of "employment." They believe that "employment" means "having a permanent occupation, whether it is a government-assigned job, working on the family farm or working as an independent laborer." This reflects that since reform and opening up, society's attitude toward employment has clearly changed. But 27.94 percent of students still believe that employment only means "having a government-assigned or government-arranged job, being a cadre or having an official post," and their understanding of employment is still constrained by old attitudes; 5.56 percent of students understand "employment" to mean "changing to a city or town residence permit and eating commodity grain," and the errors in their understanding are even more obvious.

Of high school students, 23.36 percent have resolved that "if they cannot pass the entrance exam the first year, they will try again the second year and keep trying until they pass." They are committed to going on to a higher level of schooling, and are not preparing for employment; 36.16 percent of high school students adopt a somewhat more realistic attitude of "it's best to go on to a higher level of schooling, but if they can't, they will look for employment opportunities." Only 9.06 percent of students have decided, based on their own academic situation and family financial circumstances, to begin working right after graduation. And 30.32 percent will "wait and see, and have not thought about any of it yet." Among these students are some who want to avoid the issue because they have no assurance of going on to a higher level of schooling. It is clear from this that many high school students are not completely mentally prepared for employment. However, 71.68 percent of high school students believe that it is "very necessary to offer work skills courses and employment guidance in high school." This shows that the great majority of high

school students welcome job training, and that stronger job training in regular schools accords with the popular will and is imperative.

##### 2. High school students' values regarding choosing a profession

A profession is the position from which people realize their own potential and contribute to society. The values applied to choosing a profession reflect an entire outlook on life. What are the values of today's high school students regarding choosing a profession? The survey shows that 67.61 percent of students believe that the most ideal professions should be professions that "help cultivate a person's abilities and expertise." Only 6.54 percent of students seek "high salaries and excellent conditions," and only 6.49 percent of students aspire to "high social status and being looked up to." The two together add up to only 13.03 percent. This shows that many students value the cultivation of one's expertise, far exceeding the number of those who seek fame and fortune. A mere 3.69 percent have a strong desire for power and like "supervising others and not taking orders from others," and 12.47 percent of students like "easy work and a comfortable work environment," which reflects the segment of today's youth with a mentality of seeking ease and fearing difficulty. It is especially important to point out that in the development situation from the first year of junior high to the third year of high school, there is a continuous downward trend in the number of students who value cultivating one's abilities and expertise, and the number who value fame, fortune, status and comfort continually increases. The other part of the survey results—on high school students' values regarding social behavior—coincides with that, and cannot but arouse our deep concern.

##### 3. High school students' ideal professions

We listed several types of professions and asked students to choose the type of profession that they think best suits their characteristics, based on their own abilities, expertise and temperament; 33.3 percent of high school students responded that "anything will do," "I haven't thought about it" and "I don't know." This shows, from another facet, the indifference of China's students toward professional goals.

Of students 66.7 percent have clear professional plans. What professions did most students choose? What differences are there between male and female students' ideal professions? The five top professions that male students chose were: 1. artistic work; 2. scientific work; 3. public security work; 4. commercial work; and 5. military officer. [passage omitted] It must be pointed out that artistic work and scientific work require the most exceptional natural talent. Do all of those students who chose artistic and scientific professions really have the exceptional natural talent to engage in artistic and scientific work? It is clearly not possible. This shows that many students are still in the early stage—the fantasy stage—of making decisions about what profession to



choose. Within their aspirations for their own future professions is a great deal of fantasy, and very little consideration of their own abilities, training needs, job opportunities and the many and varied other factors. The figures we obtained from the survey show that 48 percent of first year junior high students, and only 5.73 percent of second year senior high students chose artistic work; 37.93 percent of first year junior high students and only 5.66 percent of third year senior high students chose scientific work. Therefore, all things considered, high school students' professional choices are closest to the level of the period when they must actually carry through with it. In addition, female youths favor educational work, and quite a few youth expressed interest in commercial work, which shows that progress in this era has changed society's bias against educational work and commercial work. This kind of change is also reflected in high school students' professional choices and plans.

(G) Various factors affecting high school students' thinking and behavior

We listed the six primary factors affecting students' thinking and behavior, and asked students to point out the one with the greatest affect on them. The survey results show that the schools' effectiveness in promoting the development of young people is waning, and that 39.43 percent of high school students believe that the inspiration and lessons from social events is the primary factor affecting their own thinking and behavior. The other factors are, in order, "parents' words and actions," "the influence of literary allusions," "the mutual influence of friends" and "family misfortune." On the one hand, this shows that schooling is not effective in promoting the socialization of young people, and that schools, families and society must join forces if there are to be favorable results. On the other hand, it also shows that if schooling does not change from the old "closed" model, does not guide students in social participation as an educational activity, cannot cooperate closely with parents and cannot secure the support of society's educational organizations, then schools cannot play a leading role in the task of cultivating the younger generation. [passage omitted]

**Public Security Data System 'Safeguarding Reform'**

*OW0106203292 Beijing XINHUA Domestic Service  
in Chinese 1220 GMT 1 Jun 92*

[By ZHONGGUO DIANZI BAO reporter Wang Xuewu (3769 1331 2976) and XINHUA reporter Gu Honghong (7357 3163 3163)]

[Text] Beijing, 1 June (XINHUA)—Our country's computerized information system for public security matters has functioned remarkably since work started on it some 10 years ago. The system has played an important role in safeguarding reform and openness.

It is understood that following the completion of the third stage of the system, 30 provinces, autonomous regions, and municipalities directly under the central authorities, and some major cities have been linked up under the nationwide computer network for public security matters. The network covers 40 systems. Some provincial departments and municipal and city bureaus are in the process of setting up local networks. Several major applied systems have handled the principal business of public security agencies. Successfully developed systems have yielded notable social and economic benefits. These systems include a basic demographic information management system, a criminal information management system, a foreign-related information management system, and a statistical information system on fire control, communications, and public security.

It is understood that information on over 220 million people nationwide has been computerized under the demographic information management system. Such information has provided wide-ranging services to public security agencies and various social departments. The system has helped solve more than assorted 60,000 cases. In the area of criminal information management, data on more than 1 million criminals and criminal cases has been stored nationwide. The system has played an important role in fighting crime because the information stored in it has helped solve over 100,000 assorted cases, of which over 30,000 are major ones.

Information on 80 percent of people entering and leaving the country has been entered into the foreign-related information management system, thus providing direct services to reform and openness. After its automation of inspection procedures for transit passengers in October of 1988, the port of Luohu in Shenzhen—which clears thousands of overseas passengers per day—has outpaced the authorities in Hong Kong in clearing transit passengers. This has facilitated the exit and entrance of compatriots at home and abroad as well as foreign friends.

The statistical information system on public security matters has provided a reliable basis for conducting, at any time, quantitative and qualitative analyses of the state of our country's social security, as well as for strengthening guidance over general and specific management of public security matters. Gratifying progress has also been made in establishing communications, fire control, criminal investigation, safety protection, and command centers, and in applying office automation technology.

### Political Language Causes More Confusion

92CM0352A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 274, 13 Jun 92 pp 30-31

[Article by Chi Yanling: "No Linkage Between a Politician's Brain and His Mouth"]

[Excerpts] [passage omitted] Politics is a trade in which one relies on brains to issue orders and commands, and the mouth is just a tool to serve the brain. But now politics has degenerated into an effort to control relying only on the mouth; the mouth of the politician has declared its independence from the brain. Strange talks coming out of this mouth, like the waste gases exhausted by automobiles, are being spewed randomly everywhere; and the degree of pollution has almost reached the point of covering the sky and shielding the sun. [passage omitted]

Examples of this kind of pollution can be readily picked up:

Li Tenghui (30 May): In the year 2012, the income of our people will reach \$30,000.... This is the foundation laid by the national representatives' efforts in reforming the constitution in the past 70 days .... I have just used my observation over more than 20 years to evaluate the achievement of this National Assembly in reforming the constitution. You may convey my talk to the voters.

Li Tenghui (3 June): The national representatives of all party affiliations have achieved a great undertaking in the past 70 days and have also written a history.

These two statements of Li Tenghui, echoing each other, praised the national representatives to the skies. What puzzled people is: If the income of people will indeed reach \$30,000 in 20 years, what is the inevitable logical relation between this and the national representatives who have reformed the constitution today? Does this mean that without this constitutional reform, without this group of national representatives, there will be no \$30,000 income in 20 years? This kind of reasoning is just fantastic.

The second puzzling point is: What is the definition of the word "great?" What is the meaning of the expression "writing history?" If "great" indicates that all the Kuomintang [KMT] national representatives are obedient puppets, doing everything that the party Central Committee wants them to do, if "writing history" indicates that the national representatives recklessly modify the constitution, and randomly hold meetings, thus writing a history of the National Assembly opposed by all people, then nobody will be puzzled by the words of Li Tenghui, and nobody will find it laughable; but the facts are evidently not so, and Li Tenghui's statements can only make people feel extremely nauseating!

Sung Chuyu (2 June): The incremental national representatives are the treasure and asset of the KMT.

Sung Chuyu, of "palace" origin, has always been a "loyal to the master" type. Over the years, many people have considered him his boss's alter ego. When Li Tenghui says that the national representatives are "great," he too does not stint in describing his comrades as a "treasure" and "asset." But it is funny that during the National Assembly meetings, many people considered the National Assembly "garbage." "Garbage" and "treasure" are two opposite things with two kinds of values, now Sung Chuyu, who is good at rhetoric, makes them one; this can be called an original act. Furthermore, many people have concluded that for this constitutional reform the KMT will certainly pay a price in the yearend election. In the eyes of Sung Chuyu, the constitution reform national representatives who are a "liability" have even become an "asset"; Sung's abacus technique obviously is not very superb.

Li Tenghui (3 June): The KMT will continue to reform. But national security must also be taken into account. Consequently, we will take the middle of the road.

Sung Chuyu: Various circles should treat the constitution reform process in the spirit of forbearance.

Li and Sung echoing each other in these years are full of tacit agreement; when one says "forbearance," the other follows with "middle of the road." On the surface, they sound very scholarly, in reality they are just playing Chinese gungfu.

"Forbearance" means "benevolence." In the 70 day meeting period of the National Assembly, the KMT has been malevolent toward the opposition party and the public; after the meeting, it wants others to be benevolent and forbearing toward the KMT. Can there be anything more unreasonable than this in the world?

"Middle" means impartial and unbiased. In the past 40 some years, the KMT has never followed the middle of the road. It has always suppressed "reform" in the name of "security." Security has become an excuse for suppressing reform; security has become a tool for attacking dissidents. The KMT has never established an organic interactive relation between national security and reform and developed a rational model in which reform can promote national security. Those who have seen through the KMT tricks have long considered "middle of the road" as a synonym of "conservative." The "road" of the KMT, in many people's eyes, is at best just a political riddle.

Chu Chiying (27 May): The Democratic Progressive Party [DPP] set a limit of three days for the KMT to reply and wanted the KMT representative to be specified by the DPP .... This is the style of Hitler, Fascist, Mao Zedong; it wants others to surrender and not to have a dialogue.

The KMT has always been criticized by the opposition party as a tyrant political party. This time, the KMT spokesman used, in one breath, the parties lead by the three most famous persons of the century— Hitler,

Mussolini, Mao Zedong—to describe the DPP, this may be considered the uttermost in “flattery.” These three personalities have all toppled their political enemies and seized power; is Chu Chiying making a prediction about the future politics of Taiwan? If so, the DPP should thank him for his good prophesy.

The DPP does not have much political capital, therefore it often likes to play the all-or-nothing game. Sometimes, it goes too far and cannot get itself out of an embarrassing situation. This is indeed a shortcoming of the DPP. But during the constitutional reform period of the National Assembly, the KMT completely ignored the opposition force which has one quarter of the seats. It not only insisted on one party's own way, but also insisted on the Central Committee's own way, having adopted none of the opinions from other comrades. Opinions from the adversary were even more completely blocked.

The KMT's mouth says “jointly reform the constitution,” but its actual practice is more Hitler than Hitler, more Fascist than Fascist and more Mao Zedong than Mao Zedong. All events have a sequence. If the KMT did evil first, what stand has it to reproach the DPP which did evil later? [passage omitted]

#### **Investigation Bureau Seizes Counterfeit U.S. Software**

*OW2307091492 Taipei CNA in English 0745 GMT  
23 Jul 92*

[Text] Taipei, July 23 (CNA)—The Investigation Bureau Wednesday seized NT\$30 million (\$1.2 million) worth of counterfeited video games software in suburban Taipei.

Five local companies were found having copied the software of Capcom, a company of the United States, for domestic sales, the bureau said.

#### **July Imports Likely To Set New Record**

*OW2307091992 Taipei CNA in English 0748 GMT  
23 Jul 92*

[Text] Taipei, July 23 (CNA)—Taiwan's imports in July are very likely to set a new single-month record,

according to customs-clearance trade figures released by the Ministry of Finance (MOF) Wednesday.

The figures show that imports reached \$3.96 billion in the first 18 days of the month, an impressive 22 percent advance from year-earlier levels, while exports rose only one percent to \$4.3 billion, thus leaving a trade surplus of \$340 million, a steep 65 percent slump from a year ago.

Judging from the hefty imports in the 18-day period, it seemed certain that in-bound shipments in the whole month will surpass \$6.5 billion, MOF officials pointed out. The highest single-month import record of \$6.41 billion was set in January this year.

The officials estimated July's exports at \$7 billion, almost the same as those of the previous two months.

#### **Rolls Royce Seeks Joint Venture Partners**

*OW2207102892 Taipei CNA in English 0752 GMT  
22 Jul 92*

[Text] Taipei, July 22 (CNA)—Lord Tombs of Brailles, chairman of Rolls Royce Plc., the largest aircraft engine manufacturer in Britain, is currently in town to seek joint venture partners, industry sources said Wednesday.

Lord Tombs has met with Premier Hao Po-tsun and other Chinese officials during the past few days to express his company's interest in entering into technical cooperation with Taiwan.

Rolls Royce is one of the four leading aircraft engine manufacturing companies in the world. It hopes to follow in the footsteps of General Dynamics Co. and Pratt Whitney Co. of the United States in forging cooperative ties with Taiwan.

The two American companies have used the money they have earned from Taipei's China Airlines and Eva Air to help Taiwan train aerospace engineers and compile work manuals.

Industrial officials said China Airlines plans to buy aircraft from the European consortium Air Bus Co. Rolls Royce hopes to sell engines for use in such jetliners and will then use the money to finance “off-set” cooperation projects here, the officials explained.

If all goes smoothly, the officials said, Rolls Royce also plans to buy aircraft parts and components from Taiwan.

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